



## **3rd Annual EuroMed Conference of the EuroMed Academy of Business**

### **Business Developments Across Countries And Cultures**

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# **3rd Annual EuroMed Conference of the EuroMed Academy of Business**

## **CONFERENCE READINGS BOOK PROCEEDINGS**

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### **Business Developments Across Countries And Cultures**

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## FOREWORD

The European and Mediterranean region includes all member states of the European Union, along with non-EU countries bordering the South Mediterranean and Middle East. It is our aim to greatly contribute and support all the efforts enhancing this relationship and interaction of individuals, organizations and governments from and between these countries.

The Annual Conference of the EuroMed Academy of Business aims to provide a unique international forum to facilitate the exchange of cutting-edge information through multidisciplinary presentations of new challenge in global business with special emphasis on European and Mediterranean countries. This is from an Academic, Research and Professional perspective.

It is acknowledged that the conference has established itself as one of the major conferences of its kind in the EuroMed region, in terms of size, quality of content, and standing of attendees. Many of the papers presented contribute significantly to the business knowledge base. The conference attracts hundreds of leading scholars from leading universities and principal executives and politicians from all over the world with the participation or intervention of Presidents, Prime Ministers, Ministers, Company CEOs, Presidents of Chambers, and other leading figures.

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

## ACKNOWLEDGEMENT

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Special thanks go to the University of Nicosia for hosting this conference and more specifically to the conference chairs, Dr. Alkis Thrassou, Dr. Ioanna Papasolomou and Dr. Yioula Melanthiou. I would also like to thank the leader of the organizing committee Ms. Yianna Orphanidou and the Conference Coordinator Ms. Yiola Michael. Their contribution was vital for the successful organization of the conference. Special thanks go to the Department of Marketing and the Department of Hospitality, Tourism and Sports Management of the University of Nicosia for their active contribution to the success of this conference.

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

Further, we would like to thank the Cyprus Chamber of Commerce and Industry and the Nicosia Municipality for all their help and support, as well as all our Main Sponsor (University of Nicosia), our Sponsors (Cyprus Tourism Organization, MTN, ExpoGlobalOnline.com) and our supporters (Emerald publishing company, Embassy of Greece in Cyprus, JCC, the College of Management Academic Studies in Israel, Cyprus Foods & Drinks, KEO and the Cyprus MBA Association). Our Cargo Carrier (Cyprus Airways) and Sponsors of Communication (Sigma TV, InBusiness magazine) are also greatly thanked.

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



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## GENDER DISCRIMINATION & ITS AFFECT ON EMPLOYEE PERFORMANCE/PRODUCTIVITY

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### Abstract

Employee performs critical tasks for the survival of the organization irrespective of any gender differences (male/female). The purpose of this study is to contribute towards important factors and dimensions of gender discrimination which are responsible for the affect on employee performance/Productivity. Three dimensions of gender discrimination are included in this research that is gender discrimination in hiring, gender discrimination in promotion and gender discrimination in facilities.

The data has collected from 200 front line managers of telecom sector of Pakistan for ascertaining the affects of discrimination on employee performance. The statistical tools employed to analyze the data are correlation and regression analyses.

There are three dimensions of gender discrimination included in this research that is gender discrimination in hiring, promotion and facilities. Gender discrimination in promotion and facilities are more responsible for the level of employee performance.

Paper suggests guidelines for the Human Resource Managers for controlling discriminatory practices which affect on employee performance and productivity

The empirical evidence from telecom sector of Pakistan and guidelines for human resource managers related to employee productivity which ultimately affect on organizational productivity.

**Keywords:** Employee Performance, Organizational productivity, Gender discrimination

### Introduction

Gender differences were identified in the 1950s, but it emerged as an important variable in organizational and administrative studies during 1980s and 1990s. During these two decades, effects of gender were considered in several studies (Hearn & Parkin, 1987) that focused on women in male dominated organizations. Gender is defined as; "Gender comprises a range of differences between men and women, extending from the biological to the social" "Discrimination is treating differently on the basis of sex or race" (Word net web) on the basis of above definitions we can conclude that basically gender discrimination is preference of one gender upon other.

The gender discrimination may exist in various dimensions which include gender discrimination in hiring, gender discrimination in salary and wages, gender discrimination in promotion and gender discrimination in different goods and facilities.

Employee is a back bone of the organization that performs critical tasks for the survival of the organization and employee productivity affected by gender discrimination. Therefore this study is designed to investigate gender discrimination and its affect on employee productivity.

Normally, Male is dominated in Pakistan so whole preference is given to him. We have done this research in order to check gender discrimination & its effect on productivity level in Telecom sector of Pakistan. This study helpful for the human resource managers of telecom sector who are facing such kind of issues related to gender discrimination and its affect on employee productivity.

It will also helpful for the employee in any telecom company, by providing information about the basic effective points of gender discrimination on your productivity.

### **Theoretical Framework & Hypothesis**

Peterson and Thea (2006) describe that there are many sources of the gender gap and discrimination in employment caused by potentially discriminatory actions by employers: discrimination in wages for the same job, discrimination in hiring, discrimination in promotion, and discrimination in how wages are set for different kinds of work. Of these, hiring is potentially the most important. Many analysts agree on this “hiring is most important; promotion is second; and wages are third.”

Although in management research literature, gender differences were identified in the 1950s, but it emerged as an important variable in organizational and administrative studies during 1980s and 1990s. During these two decades, effects of gender were considered in several studies (Hearn & Parkin, 1987) that focused on women in male dominated organizations.

The World Economic Forum’s Gender Gap Report states “no country in the world has yet managed to eliminate the gender gap and discrimination”. The labour market is segregated both vertically and horizontally according to gender and discrimination, in the form of the pay gap, for example, which continues to exist. However, it has been argued that a “genderquake” is shaking up gender relations and reordering them into a new—and supposedly more egalitarian—pattern. It seems that gender discrimination in Western developed economies has become more implicit, leading some commentators to argue that people have lost the ability or the will to address gender inequities (Elisabeth K. Kelan 2009).

Parodan and Irina (2006) describe the objective of their research is to present an overview of gender disparity in economic and political areas in Romania. This paper has application in all areas of discrimination, especially with Romania’s projected entry into the European Union in

2007. Some people have a preconceived idea that women enjoyed a particular prominence under communism both in the workplace and in political life. The reality, however, was that men dominated in government, the party and state enterprises. There were quotas for the representation of women in elected bodies, but this was superficial, as the representatives were, appointed, and the bodies were more or less powerless. Gender equality under communism went unfulfilled, as did the assurance of real power and control. The dynamic perspective of the gender disparity phenomenon is analyzed by means of three main indicators: gender development index, gender empowerment measure and human development index. Findings of the study is that one of the great expectations people have from the transition to democratic governments and market economies in Eastern Europe is the increased opportunity for people to participate in and benefit from a society built by them. In a society that values equality to ensure that people have a voice in making decisions which affect them the decisions made are better informed and effective. In the international arena, there is a growing recognition that women's representative participation in decision making is a fundamental condition of women's equality in a society that values its members.

Mari Teigen (1999) investigates appointment cases brought to the Gender Equality Ombud over a ten-year period (1985–94). The study presented aims to explore gender discrimination in recruitment and why it is so hard to document. An advantage of studying appointment cases brought to the Ombud is that the three parties — the plaintiff, the hiring authority and the Ombud — are all engaged in presenting arguments directly concerning gender discrimination. The two key questions are: how do hiring authorities argue to counter assertions of discrimination? And on what grounds are arguments accepted/not accepted by the Ombud? The cases investigated are divided into three categories: cases from male-dominated organizations, woman-dominated organizations and gender-balanced organizations. How the gender of the candidates has influenced the hiring process can only be read indirectly from most cases; hiring authorities usually argue that it is the concern for personal suitability that has been the decisive factor. In the analysis of the cases three main types of justifications of hiring preferences are identified: 'continuity', 'renewal' and 'the woman is unfit'. The decision situation of the Ombud is uncertain in most cases. In many cases the juridical expertise of hiring authorities seems to be decisive. The demarcation line is unclear concerning which arguments should be accepted as impartial and which should be rejected because of vagueness or subjectivity.

Peterson and Thea (2006) explain the hiring process is currently the least understood aspect of the employment relationship. The hiring agents in the organization are fully conscious and concerned about the non-conscious biases and gender schemas they carry when making hiring decisions. They use data from the largest Norwegian and one of the largest Scandinavian banks, employing about 7400 people, the Norwegian Bank (DnB). Given the results of the initial fieldwork, and given the centrality of the bank in the Scandinavian context, it was decided to investigate further the outcomes of the hiring process in terms of

job offers. While the recruitment and selection processes lend themselves perfectly to qualitative investigations, the question of who gets offers and how this might vary by sex leads one decisively to an investigation of the quantitative record. The statistical tools employed multivariate analysis. The result shows that their effects on hiring are considered to be beyond dispute: women are at a clear disadvantage. For actual hiring practices we found that the opposite is true: women are not at a disadvantage and may even be at an advantage in getting offers. Two organizational practices may lead to female advantage. The hiring agents had been educated about the role of non-conscious biases, which perhaps mitigated their effects. But they had also been instructed to search actively for qualified females in the applicant pool. With no qualified females in the first pass, they go through the pool a second and third time hoping to find one.

Kenneth and Wilkins (2002) demonstrate a quantitative approach to assessing gender discrimination in public salaries at the individual level. The data base used for analysis contains all full-time Texas school superintendents during 1995-98. Texas has more than 1,000 superintendents, approximately 8 per- cent of all superintendents nationwide; the total number of cases for analysis is 4,103. All data were provided by the Texas Educational Agency and were cleaned of obvious errors. Because these are pooled time-series data, we include a set of year-dummy variables to adjust for serial correlation. The results show that gender differences in superintendents' salaries are subtle rather than systematic. Female superintendents who replace male superintendents receive lower compensation. Local district wealth also interacts with gender to affect salaries.

Heather, Vanessa and Deborah (2009) examine survey-based reports of sexual harassment and sex discrimination in order to identify the stylized facts about the nature of the relationship between them. In particular, we are interested in assessing whether these concepts measure similar forms of gender-biased behavior and whether they have the same effect on workers' job satisfaction and intentions to leave their jobs. This paper uses data drawn from the 2002 General Social Survey (GSS). They restrict the sample to individuals between the ages of 18 and 65 who are employed. This leaves a final sample of 1696 observations, with 874 women and 822 males with non-missing values for our variables of interest.

The results provide little support for the notion that survey-based measures of sexual harassment and sex discrimination capture the same underlying behavior. Respondents do appear to differentiate between incidents of sexual harassment and incidents of sex discrimination in the workplace. There are gender differences in the consequences, however. Both sex discrimination and sexual harassment are associated with a higher degree of job dissatisfaction. However, women's intended job changes appear to be more sensitive to experiencing sex discrimination, while men's are more sensitive to experiencing sexual harassment. Although exploratory, when taken together these results give us hope that in the



future sufficiently detailed surveys could provide a useful foundation for quantifying the link between sexual harassment and sex discrimination. They also suggest that the best prospect for developing—and then testing— a conceptual framework of gender bias lies in adopting a multi-disciplinary approach incorporating the insights of disciplines such as sociology, psychology, and economics.

Patrick Francois (1998) provides an explanation for the continued existence of gender discrimination in competitive labour markets and analyzes the effects of policies designed to alleviate it. The huge 'gender gap' literature has shown that women, on average, consistently earn less than men. A difference in earnings persists even when controlling for hours worked, industry of work and human capital characteristics of workers, leading many to suggest that this provides evidence of wage discrimination against women. Unlike previous explanations of gender discrimination, this theory arises from the interaction between women and men within the household, and does not rely on inherent asymmetries between women and men. Even though discrimination is seen to be related to factors which can be thought external to the labour market, such as higher job turnover and labour market exit rates for women, policies which target only labour market outcomes, and do not deal with external factors, can both lead to reduced discrimination and also alter external factors, thereby reducing discrimination further. However, policies aimed at external factors will, in general, be less effective in reducing discrimination unless combined with more direct policies.

Margaret Mooney Marini (2002) has described that sex and gender is concerned with documenting the existence of differences between the sexes and explaining why those differences exist. This paper first examines what we know about how women and men differ, focusing on differences in social roles, and in the abilities and traits associated with those roles

Derek R. Avery (1991) have described that consequently, this study examined the interactive effects of race, ethnic identity, and starting salaries on the salary perceptions of 342 undergraduates. Hispanic, Asian American, and White participants exhibited positive effects of salary whereas Black respondents failed to discriminate between the different salaries. However, a three-way interaction involving ethnic identity, race, and salary revealed a more complex pattern of responses for Black participants: Higher ethnic identifiers responded similarly to Hispanic, White, and Asian Americans. The implications of these results regarding the perpetuation of racial wage inequity are discussed

"Amnesty international Koive (2001) This report documents, the abuses prepared against women's discrimination at work place based on data early from 2000 to 2004. It includes interviews with international and local staff at UUNMK.

It shows that gender discrimination in any organization effect productivity."

“Bentley, Allison the reintegration of child ex-comb antes in Serra one with particular focus on the needs of women in workplace.

### Theoretical frame work

The relationship between dependent (Productivity) variable and independent variable (gender discrimination) is illustrated in a schematic diagram as follows:

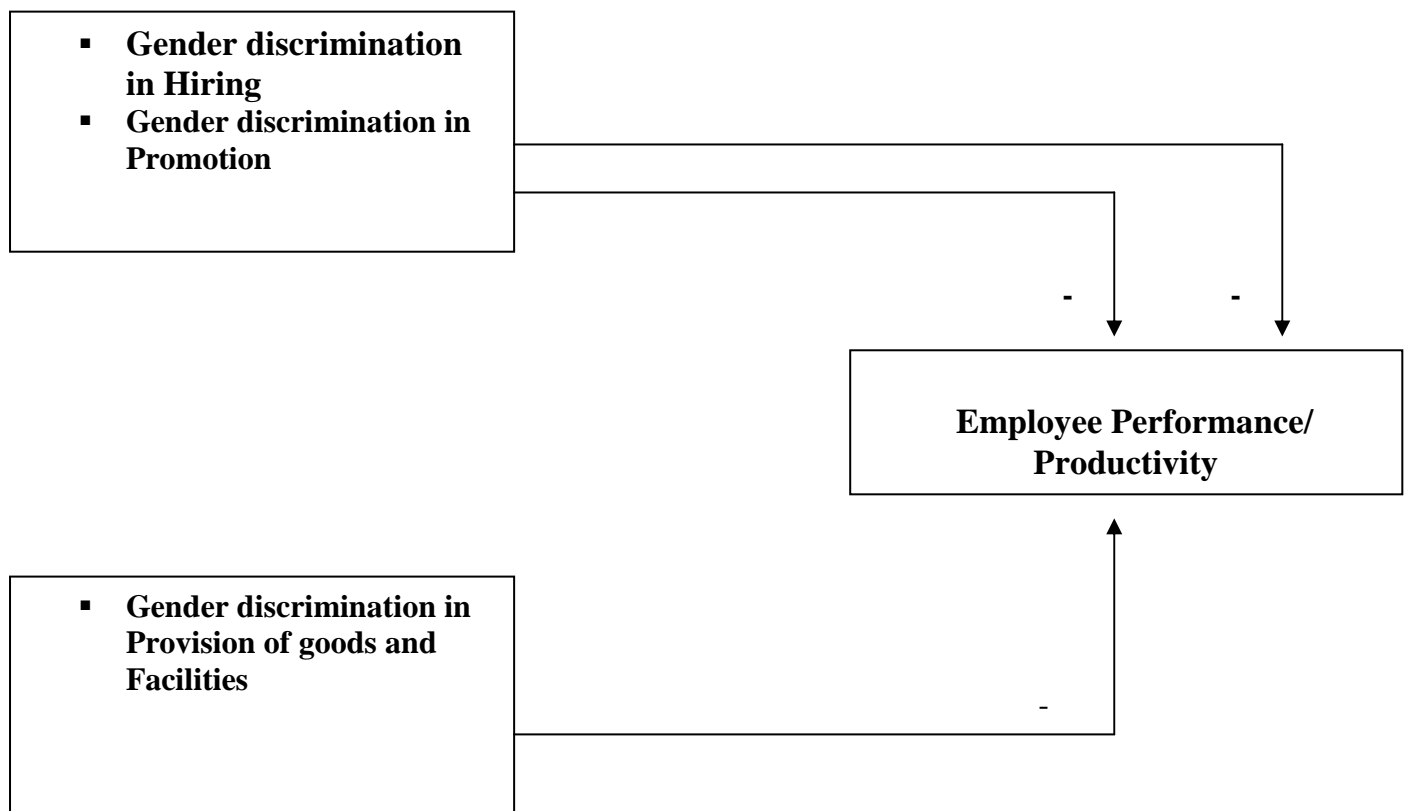


Figure 1: Schematic Diagram for Gender discrimination & Employee Productivity Model

### Regression Model

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} + \beta_{11} X_{11} + \beta_{12} X_{12} + \beta_{13} X_{13}$$

$Y =$  Employee Performance/Productivity

$\beta_0 =$  Constant

$X_1 =$  Discrimination in Hiring

$X_2 =$  Discrimination in Promotion

$X_3$  = Discrimination in provision of goods and facilities

$E$  = Standard Error

$\beta_1, \beta_2, \beta_3, \dots, \beta_{13}$  = Coefficients

This study raises different questions and hypothesis after the literature review.

What is gender discrimination and how many dimensions of the gender discrimination?

What are the affects of gender discrimination on employee productivity?

Following are the hypothesis:

**Hypothesis 1:** Gender discrimination is associated with employee productivity.

**Hypothesis 1(a):** Gender discrimination in hiring is negatively associated with employee productivity

**Hypothesis 1(b):** Gender discrimination in promotion is negatively associated with employee productivity

**Hypothesis 1(c):** Gender discrimination in facilities is negatively associated with employee productivity

## Research Methodology

This section explains the study variables, sample, the distribution pattern of the data and statistical techniques employed in the determinants of Gender discrimination for ascertaining the affects on Employee productivity.

### Purpose of Research

The purpose of this study is to contribute towards important factors and dimensions of gender discrimination which are responsible for the affect on Productivity. Here the research will present the relationship between gender discrimination and employee productivity in Telecom sector of Pakistan, narrow down to the telecom of telenor and Ufone of Islamabad..

### Data set

The source of data for this study is primary data acquired through questionnaire the data for the research obtain from the respondent of two private sector organization (ufone and telenor).

### Variable

The objective of the research is to study the gender discrimination and its impact on productivity in Pakistan. the choice of variable is influence by the previous research and analysis or done on the productivity and gender discrimination all variables stated below

have been used to test the hypothesis of this study, they include the dependent variable and the independent variables.

### Independent variables

The independent variable is the one which affect the dependent variable in a positive or a negative way the independent variable of this study is gender discrimination.

Gender discrimination is one of the leading social problems all over the world.

### Dependent variable

Dependent variable is the prime interest of the researcher the dependent variable is one which is effective by the independent variable the variation in the dependent variable can be explained by the variation in the independent variable; Productivity is the main dependent variable.

### Limitations of Research

The major limitations of this research are cost, time and research culture. This research can not be conducted on a broader level due to shortage of funds. Time is another constraint. The research culture does not exist in our Pakistani organizations, especially in telecom sector; employees are not willing to participate and disclose information during the survey.

### Analyses and Results

The statistical tools employed to analyze the data were Pearson's correlation and regression analyses by using SPSS. The descriptive analysis will be conducted to provide an idea on how the respondents have answered the question.

Correlation coefficient provides a measure to establish the strength. This study would like to establish a linear relationship between productivity and gender discrimination. Regression analysis will be used to estimate the causal relationship between the productivity and gender discrimination.

<i>Pearson Correlation Sig. (2-tailed) Sample 50</i>	<i>Discrimination in hiring</i>	<i>Discrimination in Promotion</i>	<i>Discrimination in facilities</i>	<i>Employee Productivity</i>
<i>Discrimination in hiring</i>	1			
<i>Discrimination in Promotion</i>	-.338*	1		
<i>Discrimination in facilities</i>	-.347*	.000	1	
<i>Employee Productivity</i>	-.234	-.084	-.066	1

*Correlations (Table A)*

\*. Correlation is significant at the 0.05 level (2-tailed).

## Correlation Analysis

One of the statistical tools employed to analyze the data is Pearson's correlation by using SPSS. Pearson's correlation is a reasonable and familiar means of assessing linear association between variables. Pearson Coefficient measures the degree of association between different variables under consideration. The correlation coefficient provides a measure to establish the strength. This study has established a linear relationship between dependent variable and all other independent variables. The relationship and association has been explained at 95% confidence level. There is a strong relationship exist between the variables at 0.05 or 95% level of confidence. Gender discrimination affect on employee productivity at a 95% confidence level which explained strong association between gender discrimination and employee productivity.

## Regression Analysis

Regression analysis explains the variance and causal relationship between independent and dependent variables. "B" lists the regression coefficients (Table B) for the independent variables i.e. Discrimination in hiring, Discrimination in Promotion and Discrimination in facilities at  $P < 0.05$  level of significance. These represent the slope and Y-intercept for the regression line. There is one constant in table B that is 1.894 while other regression coefficients represent the slope and Y-intercept -.418, -.204, and -.158 respectively.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.894	1.052		2.750	.002
Discrimination in hiring	-.418	.215	.313	1.942	.003
Discrimination in Promotion	-.204	.162	-.190	-1.258	.001
Discrimination in facilities	-.158	.206	-.043	-.281	.004

a. Dependent Variable: Employee Productivity

Coefficients (Table B)

The Regression analysis clearly depicted and explained that gender discrimination significantly and negatively contributes in employee productivity. For the purpose of identifying the important variable influencing the dependent variable (Employee productivity) this research has used the regression analysis. The regression analysis of the used model has employee productivity as dependent variable.

## Model Summary

Model	R	R Square	Adjusted R Square
1	.794 <sup>a</sup>	.756	.741

Table C

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2.927	3	.976	1.450	.000
Residual	30.949	46	.673		
Total	33.876	49			

a. Predictors: (Constant), Discrimination in facilities, Discrimination in Promotion, Discrimination in hiring

b. Dependent Variable: Employee Productivity

Table D (ANOVA)

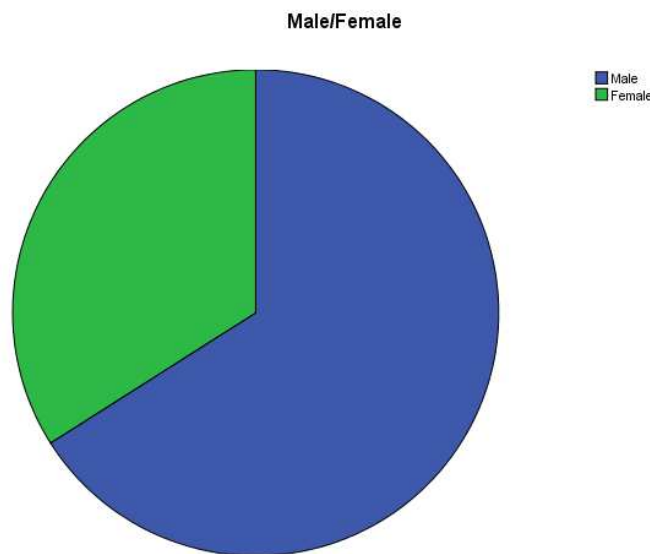
The value of R-squared ( $R^2$ ) = 75.6 % and Adjusted  $R^2$  is almost 74.1%. This indicates that independent variables bring sufficient variation in the dependent variable i.e. employee productivity and only 24.4 % variation is caused by other variables. Larger values of R indicate stronger relationships.

0.  $\leq$   $R^2$   $\leq$  1.00

Table D summarizes the results of an analysis of variance. F value shows that the overall model is statistically significant and Independent variables predict the variation in the dependent variable Sales rate

Male/Female

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	33	66.0	66.0	66.0
Female	17	34.0	34.0	100.0
Total	50	100.0	100.0	



Frequency table shows that Sixty six percent respondents are male (132/200) while thirty four percent female (68/200). It means most of the respondents are male and working in the organizations of telenor and ufone. Pie chart also represents and indicates the same result of 66:34 ratio out of total 200 respondents

## Discussion and Conclusion

Employee (male/female) means the individual who performs certain tasks and duties for the accomplishment of organizational goals. Organizational productivity and performance affected by employee performance and employee performance affected by gender discrimination.

The survey conducted in telecom sector especially ufone and telenor companies employees male and female in Islamabad for the research study to find out the relationship and affect on employee productivity. Therefore statistical tools employed correlation and regression analysis and model summary shows the significant relationship between gender discrimination and employee productivity.

All hypothesis proved that there is a significant relationship and association between gender discrimination and employee productivity. Gender discrimination in hiring, gender discrimination in promotion and gender discrimination in provision of goods and facilities have negative relationship with productivity.

The human resource managers should be careful while hiring & promotion of the employees and providing facilities to employees in order to avoid any gender discrimination because it has a direct relationship on employee productivity and which will reduce organizational productivity.

The human resource managers should provide facilities and provision of goods according to the proportion of male and female. In the mean while promotion of employees on merit and seniority wise.

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## Appendix A: Questionnaire

Dear Sir/Madam, I would like to invite your participation in a research study of Gender discrimination. Thank you for sparing your precious time to fill this questionnaire. It is being distributed to you purely for academic purpose and all the responses will be confidential. Your unbiased choices will be highly appreciated and make this research valuable.

<b>University/ Organization Name</b>	
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<b>Gender</b>	<input type="checkbox"/> <b>Male</b>	<input type="checkbox"/> <b>Female</b>
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1. There is a discriminatory practices prevail in the organization when takes into account the organizational culture and management attitude,:

<b>Strongly Disagree</b> 1	<b>Disagree</b> 2	<i>Neutral</i> 3	<i>Agree</i> 4	<b>Strongly Agree</b> 5
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2. : I felt and listen about discrimination on the basis of gender when I was applying for the job

<b>Strongly Disagree</b> 1	<b>Disagree</b> 2	<i>Neutral</i> 3	<i>Agree</i> 4	<b>Strongly Agree</b> 5
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3. Does the way pay is managed around here, I feel that there is biasness and unfairly treatment on the basis of gender?

<b>Strongly Disagree</b> 1	<b>Disagree</b> 2	<i>Neutral</i> 3	<i>Agree</i> 4	<b>Strongly Agree</b> 5
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4. The managers have treated unfairly while promotion of the employees on the basis of gender (male/female):

<b>Strongly Disagree</b> 1	<b>Disagree</b> 2	<i>Neutral</i> 3	<i>Agree</i> 4	<b>Strongly Agree</b> 5
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5. The employees may be discriminated by managers/employer while hiring and recruitment process on the basis of gender:

<b>Strongly Disagree</b> 1	<b>Disagree</b> 2	<i>Neutral</i> 3	<i>Agree</i> 4	<b>Strongly Agree</b> 5
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6. There is a discrimination in the provision of goods, facilities and services on the basis of gender:

<b>Strongly Disagree</b> 1	<b>Disagree</b> 2	<i>Neutral</i> 3	<i>Agree</i> 4	<b>Strongly Agree</b> 5
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7. The rules, policies and procedures used to evaluate my performance on the basis of gender were?

<b>Very Unfair</b> 1	<b>Unfair</b> 2	<i>Neutral</i> 3	<i>Fair</i> 4	<b>Very Fair</b> 5
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8. Do you ever have the feeling there is a biased behavior of your boss/supervisor for the evaluation of your performance?

<b>I almost always feel this way</b> 1	<b>Sometimes feel this way</b> 2	<i>Neutral</i> 3	<i>No feel this way</i> 4	<b>I never feel this way</b> 5
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9. I am fad up and morale down in performance of task and duties due to discriminatory practices:

<b>Strongly Disagree</b> 1	<b>Disagree</b> 2	<i>Neutral</i> 3	<i>Agree</i> 4	<b>Strongly Agree</b> 5
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10. My performance and productivity low whenever comes in to my mind about the biased and unfairly treated behavior of employer/managers

<b>Strongly Disagree</b> 1	<b>Disagree</b> 2	<i>Neutral</i> 3	<i>Agree</i> 4	<b>Strongly Agree</b> 5
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11. I feel very little affiliation & loyalty to this organization due to discrimination.

<b>Strongly Disagree</b> 1	<b>Disagree</b> 2	<i>Neutral</i> 3	<i>Agree</i> 4	<b>Strongly Agree</b> 5
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12. This organization really inspires me the very best in the way of job performance

<b>Strongly Disagree</b>  <b>1</b>	<b>Disagree</b>  <b>2</b>	<i>Neutral</i>  <b>3</b>	<i>Agree</i>  <b>4</b>	<b>Strongly Agree</b>  <b>5</b>
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# ESTIMATING THE SUSTAINABILITY OF RELATIONSHIP STRENGTH BETWEEN ORGANIZATIONAL CLIMATE FACTORS AND EMPLOYEE'S COMMITMENT ACROSS THE CULTURAL AND WORK ENVIRONMENT BARRIERS: A META - ANALYSIS OF SELECTIVE STUDIES

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## Abstract

This paper examines the strength in the direction of relationship between organizational sub-climate (OCL) with organizational commitment by utilizing the meta-analysis technique. The sub-climate is divided in two categories: favourable (+ve correlation with Org commitment) and unfavourable (-ve correlation with organization commitment). The analysis was done using the available effect size statistics (r values) and subsequent stages of effect size treatments were done to reach to a final strength of correlation with direction and confidence interval values wherein the value can oscillate. The unfavourable organizational sub climate ( k = 40, N = 66318, failsafe N = 59,224) is correlated negatively with organization commitment (random effect model: r = -0.326 before correction and r = -0.4 after correction; fixed effect model: r = -0.608 before correction and r = -0.628 after correction) with confidence interval range varies from -0.552 to -0.562. The favourable organizational climate (k = 89, N= 53865, fail safe N = 299,294) is correlated positively (random effect model: r = 0.542 before correction and 0.574 after correction; fixed effect model: r = 0.498 before correction and r = 0.569 after correction) with confidence interval range varies from 0.509 to 0.521. The authors had reviewed 256 studies to study the relationship between various variables of organization climate with the Organization climate. Practical implications of the research findings are for indicating to the organizations to minimize the unfavourable organizational sub-climate including work -family conflict, emotional labors /emotional dissonance factors, role conflicts, supervisor employee relations, leadership styles, decision making , etc. thereby focusing much more on favourable sub-climate in order to have substantial employee organization commitment or employee retention, as reduced commitment is well known to be correlated significantly to employee turnover.

**Keywords:** Meta-analysis, Organizational Climate, Organization Commitment, Work Life Conflict, Emotional Labour.

## Introduction

Employee commitment has been an important issue in the service industry necessitating an investigation into the reasons for this employee commitment. In this paper, we focus on organizational climate and organizational commitment. Rather than providing a synthesis of literature in order to develop a deeper understanding of the organizational concepts the study investigates specific relation of organization climate with organizational commitment or commit to a particular point-of-view of the relationship. This integrated approach is founded on the belief that organizations are complex, ambiguous and paradoxical and the challenge is in dealing with this complexity. In fact, the theoretical relevance of the relationship clarifies the meaningfulness of organizational climate as an important construct in the study of organizations.

The study of the attitudes of these workers is certainly fruitful from an assessment point-of-view, since knowing why these workers are unhappy can help the organization focus their efforts on fixing the root of the problem. Prior studies of workers attitudes have focused on the measures of someone's attitudes about their work environment (i.e. the job, supervisors, coworkers) and related attitudes to one another (i.e. job satisfaction to organizational commitment) or turnover, absenteeism and various other behaviors. What has not been studied extensively is the potential role of the organizational sub-climates characteristics on their attitudes or how they respond about it in a collective manner. So, specifically, this study has studied factors that collectively make Organizational climate and also two more factors --- work-family conflict and emotional (positive and negative) factors i.e. emotional labor and emotional dissonance factors.

Over the past decade, the research in the organizational climate field has focused on several aspects of organizational life. The major reviews in this literature like role ambiguity, role conflict<sup>22</sup>, leader or supervisor relationships with the employees<sup>14</sup>, job characteristics<sup>35</sup> etc have determined the relationship between different constituents of Organizational climate and Organization commitment across the length and breadth of time in order to understand the undercurrent of the organization. Additionally, employee perceptions are treated as a uni-dimensional construct. Research in the organizational climate literature however indicates that employee perceptions of organizational climate are multidimensional.

## Theoretical foundations of Organizational Climate

Although the definition of organizational climate has changed over the last 15 years, it nearly always has been regarded as a property of the organization, as its name suggests. We might **define** climate<sup>10</sup> as *a set of attributes specific to a particular organization that may be induced from the way that organization deals with its members and its environment.*

Organizational climate is a cluster of multiple variables. Exclusive focus on the individual as the unit of theory in climate research is unlikely to be as informative as a study involving multiple units of theory. Multiple units of theory i.e. organizational sub-climate should be recognized in climate research for a number of reasons. First, psychological, subunit, and organizational climates may differ empirically. If there were only one unit of theory in climate research, then there would be no reason to adopt different labels for organizational, subunit, and psychological climate. "Organizational climate" connotes an organizational unit of theory, it does not refer to the climate of an individual, workgroup, occupation, department, or job. Researchers interested in other types of climate should adopt appropriate labels and units of theory and analysis <sup>10</sup>. If the unit of theory for organizational climate is the organization, then the unit of observation should also be the organization. Failure to apply this simple logic threatens the validity of organizational climate studies that sample either individuals or a limited number of similar departments in one or two organizations. Thus, organizational scientists are encouraged to pay attention to multilevel issues i.e. organizational sub-climate.

Schein defined **Culture** as "a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members <sup>7</sup>. As evidenced by the strong similarities between the recent work on the determinants of climate and culture, cross-fertilization would be mutually beneficial. The minor substantive differences between culture and climate may prove to be more apparent than real <sup>10</sup>.

There are various determinants of Organizational climate over which the focus could be made but the results of recent meta-analyses<sup>5</sup> have generally found that, of the variables presumed to be antecedents of organizational commitment, situational characteristics (e.g. job characteristics, role states, group-leader relations) account for more variance than do personal characteristics (e.g. demographic variables, personal dispositions). Mathieu and Zajac, for example, argued that individual difference might serve to moderate the influence of situational variables on commitment<sup>25</sup>.

#### **Emotional Labor & Emotional Dissonance as Organizational Sub Climate factors:**

Although the role of emotional experiences in our physical and psychosocial well-being has long been recognized, it has only recently received consideration within the broader framework of organizational behavior. Researchers have suggested that the conflict and tension are also created by emotional dissonance arising from the performance of emotional labour in service roles<sup>1</sup>. The level of emotion management required may ultimately cause an employee to leave the organization, either through absence or turnover, due to poor person-job fit. It was proposed that displayed emotions will not only be seen as characteristic of the individual, but will be ascribed to the organization as well. Consequently, organizations generally require emotional labor to ensure the display of positive emotions because it is

expected that regulated emotional expression will increase sales through the reinforcement provided to the customer in the form of positive socially desirable emotions<sup>18</sup>. Furthermore, emotional dissonance and labour and their consequences like emotional exhaustion is conceptually related to depression, a health outcome for which the importance of social causes such as social support, has been stressed by several authors. When employees consider their career opportunities within the organization as limited or absent (unmet career expectations), a withdrawal reaction may be evoked in order to cope with the frustrations<sup>13</sup>. Emotional dissonance refers to the discrepancy between prescribed emotions of organizations and genuinely felt emotions of employees. It can be also viewed as an emotional demand that requires employees to express unmet emotions at work<sup>36</sup>.

Despite evidence showing the relationship between emotion regulation strategies and emotional exhaustion, little research has been conducted on the aggregate empirical influence on Job outcomes of employees in a wholistic manner across the service sector<sup>24</sup>. Because an organizationally focused model, inclusion of *organizational emotional climate* may be quite relevant for a more complete understanding of effective work behaviors and attitudes, as well as for the promotion of more humane work organizations<sup>4</sup>.

The inside of employee facing emotional turmoil is characterized by feelings of frustration, anger, cynicism and a sense of ineffectiveness and failure. The emotional organizational climate are like any other Job stressors namely role ambiguity, conflict that can have similar or even more influence on job outcomes<sup>17</sup>. Role overload, work family conflict<sup>40</sup> are the other role pressures leading to burnout. They all lead to Emotional exhaustion and intensify the intention to leave the organization.

### **Work Life Conflict as an Organizational Sub Climate Factor**

Flexibility is an essential factor in understanding twenty-first century jobs. Technology has made work more portable and ubiquitous. In comparison to organizational emotional climate, which is in general the emotional-display demand of organization, this sub climate factor seems to be a conflict of demands from employee's family and workplace. Given that work and family constitute the dominant life roles for most employed adults in contemporary society. Thus, employed men and women are increasingly concerned about managing the conflicts experienced in fulfilling the dual demands and responsibilities of work and family roles. Accordingly, work-family interference (WFI) and family-work interference (FWI) are experienced when pressures from the work and family roles are mutually incompatible, such that participation in one role makes it difficult to participate in the other<sup>27</sup>.

Problems with long work hours, frequent transfers, scheduling difficulties and economic insecurity were the important one leading to interference of family with work. The Spouse support<sup>29</sup>, transfer of families, higher divorce rates, increase in time spending with children etc. are leading social trends that have influence on employee attitude towards work like commitment, satisfaction. The demands of family could be both *time based* or *strain based*



demands or *boundary spanning resources* based <sup>38</sup> making the work-life suffocate due to absence or shortage of the same. Perception of family ability to function in an effective manner<sup>16</sup> marital instability<sup>30</sup> household social-economic activities & , perceived insecurity <sup>15</sup> transition to marriage, the transition to parenthood<sup>9</sup> ,employment and work experience of partner <sup>37</sup> are also important constituent factors that can enhance the conflict and impact on employee's attitude towards job. Even gender of employee can be a reason of more frequent emotional imbalances <sup>2</sup>.

*Work-Family facilitation* is a positive and friendly environment at work for an employee and it can have positive spillovers over job commitment. This facilitations given by the workplace includes, family friendly policies like family life education, behavior modification support, family therapy and family enrichment <sup>39</sup>. Similarly Family-Work facilitation is a positive and friendly environment for an employee at home and it can too have positive spillovers over job commitment. The personal social support i.e. from spouse , parents, relatives<sup>23</sup>; dual earning couples<sup>19</sup> , positive mood<sup>2</sup> and satisfaction with childcare<sup>30</sup> act positive spillovers over employee's job attitudes.

A Study also show that companies offering family-friendly policies are successful at retaining employees, even if individuals did not use the policies themselves <sup>8</sup>.

### **Theoretical foundations of Organization Commitment**

A first step toward conceptualizing managerial perceptions of employee organizational commitment is to examine existing theory. Commitment to an organization reflects the relative strength<sup>32</sup> of an individual's identification with and involvement in that organization. Organizational commitment can be portrayed as having three major components: (a) a person's strong belief in and an acceptance of the organization's goals, (b) a person's willingness to exert considerable effort on behalf of the organization, and (c) a person's definite desire to maintain membership. The stronger the commitment, the stronger is the person's predisposition to be guided in actions by internalized standards

A variety of definitions and measures of organizational commitment (OC) have been set forth <sup>34</sup>. According to Meyer and Allen, commitment to an organization may develop because employees' investments in the organization, such as seniority and benefits, make leaving too costly. They called this phenomenon continuance commitment and developed a measure called the Continuance Commitment Scale (CCS). A second type of commitment, affective commitment, suggests that employees are committed to and remain with an organization because of an emotional attachment to it and an identification with its goals. Two popular measures of affective commitment are the Organizational Commitment Questionnaire (OCQ and the Affective Commitment Scale (ACS).

Porter, Steers, Mowday, and Boulian suggest that it (OC) has three primary components<sup>21</sup>: (1) a strong belief in and acceptance of the organization's goals and values; (2) a willingness to exert considerable effort on behalf of the organization; and (3) a strong desire to remain with

the organization. The concept organizational commitment, as measured by the well-known Organizational Commitment Questionnaire (OCQ) of Porter et al. and by a shorter version by Cook and Wall is characterized, according to the latter, by three interrelated dimensions: acceptance of the organization's values, willingness to exert effort on behalf of the organization, and desire to remain an employee of the organization<sup>12</sup>.

Interest in studying organizational commitment has continued for a number of reasons<sup>3</sup>. It consistently has been shown to be related to: (a) employee behaviors, such as job search activities, turnover, absenteeism and, to a lesser extent, performance effectiveness; (b) attitudinal, affective, and cognitive constructs such as job satisfaction, job involvement, and job tension; (c) characteristics of the employee's job and role, including autonomy and responsibility, job variety and task identity and role conflict and ambiguity; and (d) personal characteristics of the employee, such as age, sex, need for achievement, and job tenure. This range of relationships, coupled with the belief that organizational commitment is a relatively stable attitude over time when compared to job satisfaction, suggests the importance of pursuing a thorough understanding of the operation of this major construct.

Recent literature has tended to focus on the broader concept of work commitment that includes specific commitment objects such as the organization, work group, occupation, union, and one's job. The importance of such research has been emphasized<sup>6</sup> by Randall and Cote, Mueller, Wallace and Price who argued that we are still much in need of conceptual and empirical work in sorting out how forms of commitment are related and how they relate to work behavior.

### **Purpose of this research**

Strong Organizational climate is known to be related with Organizational commitment positively and also negatively. The multilevel issues discussed in this paper are not unique to climate and culture. Similar problems have been observed in other areas of organizational science, such as leadership, job design, organizational technology and design, corporate philanthropy, equity theory, and participation in decision making<sup>10</sup>. Unfortunately, most important problems in organizational science potentially involve multilevel problems. Recent developments in meta-analysis have made it possible to re-examine the past research studies using available statistical review methods. The methods that are used allow for statistical aggregation of the empirical findings. The effect sizes of each study and the samples can be brought together and thereby making it possible to review the existing literature on these multi-level relationships between the various Organizational sub-climates and the organization commitment in one go. The purpose is simply to utilize meta-analysis statistical tool to find the strength of relationship between organization commitment and two types of organizational sub-climates, namely favourable and unfavourable organizational climate.

## Hypotheses

The hypotheses examined in this study were as follows:

Although the studies provides insight about the nature of relationship of organizational commitment with general nature of favourable and unfavourable sub-climates (and other work attitudes), it has not been directly tested or yet found in recent literatures. To test and to shed additional light on the nature of the relationship, we derived the following hypothesis.

*Hypothesis 1:* Business-unit-level employee Organizational Commitment will have high positive average correlations with the business-unit favourable aggregate Organizational sub-climate.

*Hypothesis 2:* Business-unit-level employee Organizational Commitment will have high negative average correlations with the business-unit unfavourable aggregate Organizational sub-climates

That is, these correlations will not vary substantially across organizations, and in particular, there will be few if any organizations with zero or negative correlations.

## Method (Primary Meta-analysis)

### Identification of studies

The collection of studies was started by computerized searches of the specialized database, such as the PROQUEST, SSRN, Questia library online, JSTOR, Emerald library online, Blackwell, NDLTD, psychological abstracts, ebrary online library, and Dissertations (full / abstracts), covering the published literature. The keywords used were corporate climate, organization attitude, culture fit, organizational culture, employee commitment, commitment and organizational sub-climate, organizational culture and job satisfaction, work satisfaction, employee loyalty, Affect psychology, work environment and many more. We manually searched for relevant articles in the following journals: OMEGA International journal of Management science, Journal of Marketing, Academy of Management Journal, Applied Psychology—An International review, International Journal of Human resource Management, Sedme, Journal of Business ethics, Organizational research Methods, Human resource Development review, Indian Journal of Marketing, Indian Journal of Training and development, Abhigyan, Indian Journal of Applied Psychology, Indian Journal of Industrial Relations, Group & Organization Management and many others. We also conducted searches using the reference sections and books on organizational behaviour management and organization culture, role conflict.

In addition, unpublished manuscripts were solicited from a number of researchers in this field. The libraries visited were ranging from university status to institute levels. The search was limited to articles in the English language. The foreign language studies which we came

across were rejected due to language problem. The number of studies actually referred for this study is 106 (favourable and unfavourable studies separately) in number. Few organizational studies were eliminated because of lack of data on the variables of interest, i.e. (one sided data) correlation values among the desired two sides were not available or even due to very low values of effect sizes in the study. For example, in the study of William and Robert (Scargle 2000) the  $r$  value between Commitment variable and role conflict is -0.12 and -0.14. Out of them few studies were quasi-experimental wherein the sample units were not organizational members and the remaining were actual correlational studies.

#### **Variable Selection and Measures:**

From an examination of previous studies (Morris & Sherman 1981) antecedents of organizational commitment could be cast into three categories: personal characteristics of members, role-related characteristics, and work experiences. In selecting variables to represent each of these categories in the present study, several criteria were used. First, the intention was to explain variation in organizational commitment at a level that would prove significant in practical as well as statistical terms with as few predictor variables as possible. Second, an attempt was made to identify variables from the three categories that, while broadly representative of phenomena in their respective categories, also would prove to be relatively independent predictors of commitment. The organizational sub-climate variables were specifically divided in the following three categories: unfavourable working environment; Role conflict/ambiguity/overload and negative leadership. Each category includes many variables corresponding to the parent category. The favourable sub-climate was divided in the following categories: Organizational Justice, decision making, favourable working environment, Organizational support, organizational communication, positive leadership. The organizational commitment variable includes affective, continuance, normative, affiliation, identification, compliance, and internalization commitment.

#### **Meta-analysis**

Meta-analysis is a statistical technique that can be used to cumulate research findings across studies. It can be used to average sample correlations across studies in order to distinguish variance that is due to statistical artifacts (e.g. sampling, error, error of measurement, restriction in range) from variances that is due to differences caused by moderator variables. Meta-analysis involves (Miller, Monge 1986) the computation of the size of effects between the variables of interest for each study. After individual effect sizes are computed, they are cumulated for an estimate of the effect over a large number of studies. This estimate can be corrected for statistical sources of variance.

The Hunter and Schmidt meta-analysis procedure was used in this study because it aggregates correlation coefficients across studies, corrects for the presence of statistical artifacts and provides unbiased estimates of the theoretical population relationships. We had employed following sequence of steps:

- Coding of studies
- The estimation of population mean correlation,
- Effect Size adjustments,
- Transformation and Bias corrections in cases applicable,
- Outlier analysis (Windsorizing procedure),
- Hunter and Schmidt Artifacts adjustments,
- Confidence Intervals calculations around the mean effect size,
- Homogeneity analysis (Q),
- If not homogenous, then Analysis of Heterogeneous Distributions of effect size,
- Calculation of Rosenthal fail-safe N to remove publication biasness.

Several additional points need to be highlighted in order to completely clarify the meta-analysis that was conducted. Statistical artifacts controlled for in this meta-analysis were sampling error, outliers. Extreme values were discarded for both favourable and unfavourable organizational sub-climate. Nothing was done for range corrections due to lack of essential data. Based on Hunter, average of correlation values, the effect sizes, does not violate the independence assumption, it was decided that if more than one value of interest is more than one in each sample study, it would be reported as average correlation. We used coefficient alphas or the equivalent in correcting the variation in validities for variability due to differences in predictor unreliabilities across studies. Additionally, it was decided to adopt<sup>5</sup> the Schmidt, Hunter & Raju's suggestion to use confidence interval to interpret the generalizability of the result.

#### **Selection Criteria for Inclusion in the analysis**

Since the research on effect of organizational climate has been conducted across various disciplines, we started by defining the boundaries of our work. The title of this research paper places several limitations. First, a study was required to examine dependent variables in the form of organizational climate and organizational sub-climate as independent variable. Secondly, procedure of *Windsorizing* <sup>20</sup> was adopted wherein the values are believed to be unrepresentative or spurious, but the recoded to more moderate ones. Thirdly, the variables which are part of any of the category of favourable (like justice, favourable work environment, etc.) or unfavourable (unfavourable work environment, Role conflict/overload/ambiguity, etc) organizational sub-climates were included. Any other sub-climate variables which were present in the study were not included.

#### **Brief descriptions of meta-analysis procedures**

Once the studies were assembled, the meta-analytic procedures suggested by Hunter and Schmidt were applied to the group of correlation coefficients. The first step in this analysis

was the computation of effect size for each study. Two estimates were available: 'd', recommended by Glass, McGaw, and Smith (1981); and 'r', recommended by Hunter and colleagues (1982). These statistics are direct transformations of each other, but we chose 'r' because it provides the advantage that the correlation coefficient has a well-known finite metric ranging from -1.00 to + 1.00.

After 'r' was sieved out (*with homogeneity assumptions*) from each study, the coefficient values, the standard error (SEr), and inverse variance (w) were corrected for measurement error (in each category of favourable and unfavourable organizational sub-climate), if estimates of reliability were available. Fisher transformation to each effect size under category of favourable or unfavourable organizational sub-climate was done, it was then averaged and then inverse fisher transformation was done to get the firstly corrected effect sizes. In brief, the meta-analysis proceeded in following steps: (1) calculation of the sample size-weighted mean correlation across studies; (2) correction of the mean correlation coefficient for attenuation in the measurement of Organization commitment (correction using alpha coefficients, outlier analysis); (3) examination of the confidence intervals about the corrected mean correlation coefficient; (4) test for homogeneity (if not then calculation of heterogeneous distribution of effect size (Q value), Table 1); (5) determining random variance component ( $v\theta$ ) and recalculating all previous variables and the new enlarged confidence interval. (6) Finally calculating the fail safe studies calculations using Orwin's formula.

## Results of Primary Meta-analysis

Results of the meta-analysis are presented in Table 1. These results are presented under two categories of relationship, (1) meta-analysis of favourable organizational sub-climate with organization commitment and (2) meta-analysis of un-favourable organizational sub-climate with organization commitment. This summary statistics is highlighting the overall analysis of the research (Table 1).

### (1) Favourable organizational sub-climate with organization commitment

Overall effect size uncorrected is 0.542 with standard error corrected to be 0.0219. At z value of 1.96 at  $p=0.05$ , the z calculated (131.81) is larger than the specified (1.96) so we conclude that the mean effect size for this sample is of studies is significant statistically. Correspondingly, the 95% confidence interval around the mean effect size ( $0.509 < x < 0.521$ ) does not include zero and reveals the relative precision of the estimate of mean effect size of the population of studies from which these 90 are drawn. As there is no zero in-between two limits of ES value, it suggest that earlier interpretation of positive effect of favourable climate on organization commitment is warranted; i.e. the direction of relationship of variable involved in constituting favourable organizational sub-climate is related positively to the organization commitment with the correlational strength of 0.542.

## (2) Un-favourable organizational sub-climate with organization commitment

Overall effect size is **-0.326** with standard error corrected to be 0.0341. At z value of 1.96 at  $p=0.5$ , the z calculated (161.67) is larger than the specified (1.96) so we conclude that the mean effect size for this sample of studies is significant statistically. Correspondingly, the 95% confidence interval around the mean effect size ( $-0.562 < x < -0.552$ ) does not include zero and reveals the relative precision of the estimate of mean effect size of the population of studies from which these 40 are drawn. As there is no zero in-between two limits of ES value, it suggests that earlier interpretation of negative effect of unfavourable sub-climate on organization commitment is warranted; i.e. the direction of relationship of variable involved in constituting unfavourable organizational sub-climate is related negatively to the organization commitment with the correlational strength of -0.326.

TYPE OF ORGANIZATIONAL SUB-CLIMATE	$ES_u$	$ES_c$	95% confidence limits		$Q^b$	K	N	Fail Safe 'n'
			lower	upper				
Unfavourable Organizational climate	-0.326	-0.4	-0.562	-0.552	1990.67	40	66318	59,224
favourable Organizational sub-climate	0.542	0.574	0.509	0.521	2067.644	90	53,865	299,294

Table 1: Summary Statistics

$ES_u$  –Effect size uncorrected,  $ES_c$  –Effect size corrected,  $SE_c$  – Standard error corrected,  $Q^b$ – heterogeneity statistic for correlation corrected for attenuation, N- total sample size across k studies, Fail safe n- is the number of effect size studies with a value of zero needed to reduce the mean effect size to Criterion effect size (0.13 for favourable and -0.13 for unfavourable)

S.No	Category	Q	K	$v\theta$	$ES_c$
	Unfavourable	1990.67	40	0.0405	-0.326
	favourable	828.496	90	0.0385	0.542

Table 2: Testing for homogeneity of effect sizes

\*This value of  $v\theta$  is added to the variance of each effect size i.e. S.E.U for further calculation

\* $ES_c$  –Effect size corrected, \*Q–Homogeneity test statistic

## Discussion

The purpose of this study was to investigate the relationship between the Organizational sub-climates and employee's organizational commitment. In this study, I present a meta-analytic accumulation of the literature reporting correlations of aggregate organizational sub-

climate (favourable and unfavourable) with organization commitment. In the literature reviews made in my previous research paper the issue of inclusion of emotional work climates and work-family friendly climate in organization was not aggregated together. Moreover this will help the further fine break up of organizational climate into favourable and unfavourable organization sub-climate and can help us understand the employee commitment–organizational sub-climate relationship. To address the research void in this direction, the current study presented a meta-analysis of 120,183 participants from 90 favourable studies and 40 unfavourable studies, examining the commitment–organizational sub-climate relation for employees.

Let us first consider the organizational practices that were examined. In the first hypothesis, the correlation between organizational commitment and favourable organizational sub-climate was predicted to be positively high. The value of 0.542 is highly significantly and positive. So the first hypothesis is true. The correlation between organizational commitment and unfavourable organizational sub-climate was predicted to be negatively high, and the results doesn't support that. The value of -0.326 are not high measures of correlation and instead they are moderately high. The value of significance is decreased from -0.326 to -0.4 for unfavourable relationship and significance increased from 0.542 to 0.574 for favourable relationship after application of meta-analysis procedures.

Turning now to the benefits of undertaking these supportive organizational practices,

Finally, our findings have a direct bearing on practice. We have come to considerable understanding of the qualities that are part of work environments that are supportive of the employee job attitudes. These include:

- Organizational emotional climate--,
- Family friendly organizational policies
- Work friendly family environment
- And the well known organizational climate factors like perceived support, role conflicts, role ambiguity, leadership behaviours, decision making involvement, communication, organizational justice, punishment- reward behavior.

The meta-analyses reported here are also in agreement with a large-scale integration of the organizational climate literature that found support for a general factor across different dimensions of organizational commitment. In this article, I collapse results across different measures of organizational climate to tag them as a part of organizational sub -climate (e.g. role conflict, justice, leader member relationships etc ). This was done due to the unavailability of studies for meta-analytic accumulation at a more fine-grained level. This should definitely not be construed as to suggest anything about the validity of the specific variance associated with more fine-grained measures of employee retention..



### Limitation

This study has few limitations, and our results should be interpreted with caution.

First, this study includes has all the data collected majorly from US researchers. Therefore, further participation-outcome research is needed from other country researchers before unequivocal conclusions can be reached concerning the moderating effects of climate on Commitment.

According to Rosenthal, the *file drawer problem*<sup>33</sup> may have affected the results reported because data collection was restricted to published articles. This leads to biasness in results and makes the author unable to report authentic results.

Many studies in the current meta-analysis did not report the reliability coefficients; so it was therefore difficult to determine how accurately the various adjusted correlation values interact with the meta analysis procedures.

The source of most of the data of the empirical studies is the employee's perception, which shows that the studies have systematically ignored the consideration of other perspectives, such as the perceptions of supervisors and coworkers. The number of studies on this perspective is almost negligible as compared to employees perspective.

Finally, there is a lack of longitudinal research studies in this field studied. This limits the possibility of establishing conclusive and better informed causal relations between variables, leaving open the issue of circularity of influences.

### Future Research Directions

In spite of above limitations, our findings have implications for managers in the service industry generally. First, the various dimensions of Organization climate factors that constitute Collective Organization Climate in this study namely Supervisory style, Task characteristics, Co-workers, Work motivation, Employee competence, Decision-making, and Leadership reward/ punishment behaviour were distributed on two sides i.e. favourable and Unfavourable climates. This particular division is done for the above mentioned dimensions only. Any other presence of variable that might be of interest to other researchers as a part of Organization Climate is not considered here and that might serve as an opportunity for future research study

This study measured climate perceptions of the employee on job attitudes but the underline factors were basically devoid of psychological characteristics of employees like emotional intelligence, achievement motivation, career salience, identification, internalization, anxieties which are important for the practicing managers. Importantly, when impact of organization climates is perceived, these ignored characteristics seem to serve as effective control mechanisms in the organization for various HR Practices. This empirical evidence would have been more useful. Hence, the psychological characteristics as a potential moderator is open to be considered for future research.

Future research should be directed at conducting additional consequential job attitude variable namely Job Performance, Employee Turnover and Job Satisfaction. . Together with these will complete the real meaning of Employee Job attitudes.

## Conclusion

The research reported in this article indicates that various components that make up the organizational sub-climate have differential relationships with Organizational commitment. Accordingly, when considering relationships with these and related outcomes, future research needs to further categorize and differentiate among the factors used in these research. Although additional research is needed, our findings provide preliminary support for the notion that it may be possible to promote organizational commitment by decreasing unfavourable sub-climates and promoting favourable sub-climates. Given the prevalence of decreasing level of employee commitment in today's workplace and the emphasis being placed on employee retention, research that more closely investigates relationships among different types of hurdles on a broader term and platform like meta-analysis should prove worthwhile.

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## THE CITY "CHILDREN FRIENDLY": EVALUATION OF QUALITY OF LIFE AND EMOTIONAL CONNECTION TO CITY SECOND PERSPECTIVE OF CHILDREN (9-12 YEARS)

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### Abstract

This paper presents an innovative perspective and less explored in studies on quality of life: the concept of the city "friendly to children and families." In this study we carried out a survey to a sample of 207 children aged between 9 and 12 years, students from 17 basic schools of Gaia. Gaia is the second most populated city in Portugal, located on the river Douro's south banks facing Porto. Gaia received a positive evaluation, in particular, the attributes: "there are fun activities for children", "it is good to make friends", "it is good to go shopping," or "walking" (walkability). The continuity, solidarity and self-efficacy are the basis of perceived happiness. A factor analysis of the attributes of quality of life resulted in the extraction of five factors: Factor 1- "Solidarity / culture", Factor 2- "Heritage"; Factor 3- "Beauty / Walkability"; Factor 4- "Pollution" and Factor 5- "Cleanness". A multiple linear regression model ( $R=0.455$ ,  $R^2=0.207$ ,  $F_{5,174} = 9.102$ ,  $p < 0.001$ ) (See Table 3), confirmed that happiness is explained by the intention to remain in place (Q24-continuity), self-efficacy (Q25) and the attributes of quality of life (walkability, shopping and solidarity between people).

### Introduction

Gaia (also known as Vila Nova de Gaia) is a city located on the river Douro's south banks facing Porto; it is famous for its Port wine cellars (see Figure 1); it has a population of 310 086 people (2007), an area of 168,7 Km<sup>2</sup>, and 24 parishes, and it is the second biggest municipality of Portugal (density of 1783/ km<sup>2</sup>), (see Figure 2). This study aims to evaluate a program of events called "Gaia 100 years" in order to commemorate the 100th anniversary of one of its many sport clubs - FC Gaia.

Gaia already existed under the Roman Empire as the city of Cale. The origin of the name Cale (or Gale, since in Classical Latin there was not always a clear distinction between the letters "g" and "c"). The river itself has a presumably Celtic name, Douro (Durus in Latin) maybe after Celtic "dwr", water. The name of Porto, in high medieval times Portus Cale, thus stood for the harbour ("portus" in Latin) of the city of Cale. This is the origin of the name of Portugal country nation. The first reference to a place called "Gaia" is in a document published by the Portuguese King Afonso III in 1255. The area of Gaia, as we know it today, resulted from the fusion of two villages in 1518: "Gaia" and "Vila Nova" (already born in 1288).



Figure 1- Gaia Riviera and Port wine cellars.

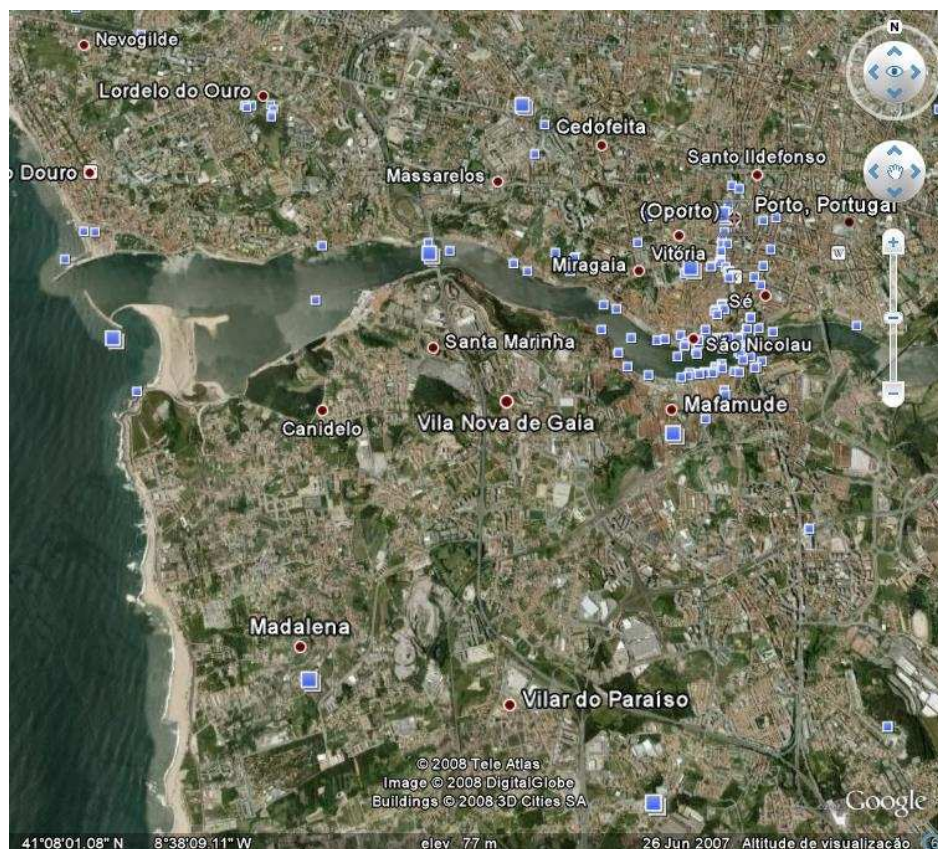


Figure 2-View of Porto (river Douro north banks) and Gaia (south banks)

Source: Earth Google

This program designed by Gaianima, EM (a public organization the municipality) and Slogan Ads (a communications agency), provided for the creation of one hundred sporting events (various types) scheduled from September 2008 and during 2009, sponsored by one hundred celebrities (in several areas) all born in Gaia. One hundred local and national companies would sponsored the construction of basketball courts, and in some cases, construction of the sports space, these facilities would be located in schools, gardens and public squares.

The study evaluated and measured several relevant variables for both place marketing either for evaluating the impact of "Gaia 100". So this article mapped the situation at the time prior to the events, especially in terms of: perceived image of the city (identity, associations), image related to local identity, emotional link to Gaia and self- esteem of its residents.

One of the target groups studied was the student population of basic schools selected to receive the tables of basketball. Therefore, this paper presents the findings and conclusions according to a new perspective, rarely addressed, which is an assessment of quality of life, the emotional connection to the city and self-perception of happiness, according to the perspective of children of 9 to 12 years.

When basic needs are met, the expectations and demands on intangibles become more important for the inhabitants of a city. The ecological psychology holds that emotional connection ('place attachment') and self-esteem in relation to the cities in which we live are important to our mental health.

The option for a city "children-friendly" is an important strategic decision for the enhancement of city's competitiveness. The aim of attracting the scarce sources of wealth such as human resources, particularly the families of highly qualified young workers boost the creativity, innovation and dynamic growth. This means more consumers, and an increasing demand for new products and services, which is likely to sustain the virtuous cycle. Therefore, quality of life of children is an important decision making criterion for their parents when they chose where to live.

So this article aims to contribute to the comprehension of the importance in using monitoring tools with a set of indicators that can be used to evaluate the success of public policies and strategies aimed at residents and particularly for children. The evaluation of public policies and performance indicators was carried out using various approaches through studies such as: "The State of European Cities Report" (2007) and the survey on perceptions of quality of life in 75 European cities (2007), which is based in the "European Urban Audit ([www.urbanaudit.org](http://www.urbanaudit.org)), coordinated by Eurostat with National Statistical Institutes; The Gallup 'the Soul of the City' ([www.gallup-europe.be/soulofthecity](http://www.gallup-europe.be/soulofthecity)) also monitors and measures political, and economic well-being and social development of more than 250 cities worldwide, according to the opinion of city residents, and performance in providing a



healthy and good working conditions. It is based on Flash EB 194 (Urban Audit Perception Survey 2006).

## **Literature Review**

The territory in the context of territorial marketing can be defined as "nation-state, a geopolitical space, a region or state, a cultural, historical or ethical space; a city and its surrounding populations, a market with several definable attributes; a basic installation of an industrial cluster and its suppliers, a psychological attribute of relations between peoples" (Kotler, Hamlin, Haider and Rein, 2002, p.4).

The term "place" is used to mean all sorts of places like cities, city-regions, regions, communities, areas, states and nations. The place and space are being increasingly recognized as socio-cultural constructions (Pritchard and Morgan, 2001).

The sites, attractions, regions and landscapes are seen as spaces through which "... the power, identity, meaning and behavior are constructed and negotiated in accordance with the dynamic socio-cultural" (Aitchison and Reeves, 1998, p.51). Also Summer-Smith and Hannam (1994, p.13) argued that: "Place is a deceptively simple concept in the context of geographical thought: we want to make it difficult and restless. We want to show that there are places outside the cultural sphere and as a result can appear and disappear, change in size and character ... according to the way that people build. The seats are not then no objective reality, only intersubjective". To Shields (1991, p.260) the place and space have "certain meanings and associations, and all studies involving the place thus also require an exploration of its' geography emotional'."

According to Kotler et al. (2002, p.183), the territorial marketing means "a place designed to meet the needs of its target markets. This occurs when citizens and businesses are satisfied with their community and expectations of visitors and investors are met." Therefore, public policy makers should recognize the role of the city brand as a strategic tool of development that can help create a city's identity, to strengthen its image and positioning and increase the sense of belonging and self-esteem residents. When people declare "Yes, I like to live in this place" will be to express general satisfaction with public policies.

### **The "children friendly" city**

The concept of a city friendly to children / families results from the implementation of the Declaration on the Rights of the Child to the UN Convention of May 2002 and aims to ensure that "city leaders consistently make decisions in the best interest of children, and that cities are places where children have the right to a healthy environment, protected, safe, educational, stimulating, non discriminatory, inclusive, culturally rich" (Riggio, 2002, p.45). Since then, this subject has been discussed in various perspectives of social sciences, namely in geography (Nordström, 2009), urban development and planning (Bridgman, 2004),



transport systems (Gilbert and O'Brien, 2009; Whitzman, Worthington and Mizrachi, 2009), sociology or ecological psychology (Lorezo and Francis, 2002; Horelli, 2006; Moser, 2009).

Another goal is to ensure that young citizens are entitled to: influencing decisions about their city; express opinion; participate in family, social and community lives; have access to basic health services, education and housing, water and sanitation; be protected against exploitation, violence and abuse; walk the streets safely, playing with friends, enjoy the green spaces for plants and animals, live in an environment polluted and environmentally sustainable; participate in social and cultural events, being loved, and to be citizens with equal access to all services regardless of ethnic origin, religion, social class, gender or physical condition.

The European Network Child Friendly Cities has made several recommendations and studies on this topic. Thus, the coordinator of the UNICEF Children Friendly Cities Initiative (begun in 1996) in Florence (Italy) Eliana Riggio (2002) proposes some measures to implement a child-friendly city: a) legislation geared for children, b) planning across the city, c) creating a unit within the administrative structure, d) monitoring of impacts on children; e) budgetary allocations for specific activities for children, f) analysis of the diagnosis of the situation; g) dissemination of information of children's rights; h) creation of the concept of "provider for the child", i) building, including infrastructure support and capacity for implementation of the measures j) children's participation in decision making.

Some good practices implemented in several cities since the 90's can be found in the database of the Child Friendly City Initiative or in published studies among others by Corsi (2002) and Riggio (2002).

The families' friendly city demands a certain quality of life attributes which had also been the target of several studies. For example, Nordström (2009) developed a study to determine the dimensions of a friendly environment for children based on the model developed by Horelli (2006). The results showed that three dimensions were reflected in responses of children: safety, quality and environmental and urban basic services. However, other dimensions of the proposed framework for Horelli not seem to apply to the life experiences of these children.

### **Emotional link to place - "place attachment"**

Hidalgo and Hernandez (2001) sought to clarify some confusion in terminology and diversity of approaches to this problem either in theory or empirical. In literature one can find many similar terms as "community connection" (Janowitz and Kasarda, 1974), "sense of community" (Sarason, 1974), "sense of belonging" (Gerson et al., 1977), "local identity" (Proshansky, 1978), "dependence on a place" (Stokols and Shumaker, 1981), "sense of place" (Hummon, 1992), etc.. Sometimes, we see that a generic concept embraces others.

Currently, there seems to be consensus on the use of the phrase "sense of belonging" (place attachment), which is generally defined as an affective bond between people and specific places. For example, to Shumaker and Taylor (1983 p.233) is a "positive association or link between the individual and the residential environment." Hummon (1992, p.256) considers it "emotional involvement with places" while Low (1992, p.165) describes as "cognitive or emotional connections to a particular medium." Sarbin (1983) also observed the tendency of people prefer to stay near these places. It is the propensity of humans and other animals to seek the place where they were born or where they feel safe.

Breakwell (1986, 1992, 1993) developed a model of social identity from the studies of Mead (1934.) Breakwell (1986) proposes that identity should be conceived as a biological organism that evolves dynamically with time and that is developed through processes of accommodation, assimilation and evaluation of the social world. This process is governed by four principles that define the structure of identity: self-esteem, continuity, distinctiveness and control. "The first three principles are evident: the two processes work to produce uniqueness or distinctiveness for one person, continuity over time and in any situation, and a sense of self-worth personal and social." (Breakwell, 1986, p. 24).

Self-esteem is related to a positive evaluation of subject and the group he/she belongs to and the feeling of pride and social value. In this sense, it is not just a simple positive assessment, but a feeling of self-esteem, which can be driven by the qualities of a site. Korpela (1989) showed how the favorite environment can support their self-esteem. While living in a historic city, a person may feel a sense of pride in this association (Lalli, 1992; Uzzell, 1995). This differs from simply evaluating a positive place, as it suggests that the person gets a boost to your self-esteem from the qualities of the site. For example, "I like ... '(evaluation) versus" live on ... it makes me feel good. "

The continuity, relates to the fact of having to be linked in space and time between past and present, that is, a common thread that makes the relationship between these two moments. The distinctiveness, it is the desire and need for individuals to feel unique and special, that can inhabit a particular place to serve the subject to differentiate themselves from others.

Breakwell (1986) suggests that the desire to preserve the continuity of the self-concept is the second motivator for action. It is defined as continuity in time between self-concepts past and present. Two distinct types of self-relationship with the environment that focus on maintaining the continuity and development are discussed in the literature: place referent continuity and self-congruence with the place of reference (self-congruent continuity). Although these relations are not mutually exclusive, Breakwell (1986) suggests that they are related to distinct patterns of residence.

The continuity of self-referent matching differs from continuity to a place because the latter refers to self-maintain continuity through specific sites that have emotional significance to a person, while the former refers to the maintenance of continuity through local features that

are generic and transferable from one location to another. For example, a person can find a place consistent with their self-concept or that better represents the values we defend, or alternatively you can try to modify the place where he lives in order to establish continuity with the self-concept.

Later Breakwell (1992) added a fourth principle, self-efficacy, defined as the confidence that the individual has in their abilities to solve the demands of the environment in which they live. Self-efficacy is defined as an individual's belief in their abilities to cope with the difficulties of a new situation. This concept arises in the context of learning theory (Bandura, 1977), and is considered high when the individual believes he can play an instrument or complete a task, which is important for the psychological well-being (Leibkind, 1992). The feelings of self-efficacy are maintained if the environment facilitate or at least not harm a person in everyday life.

Winkel (1981) introduced the concept of "manageable environment": it is one in which residents of an area are able to organize the information of the socio-physical environment immediately so that they can develop a predictive system that allows them to assess whether there an environment conducive to achieving its objectives and purposes. People feel self-efficient in their daily lives.

## Model Theory

Based on the hypothesis by Twigger-Ross and Uzzell (1996) and the model proposed and validated by Knez (2005, p.216), in Figure 1, it is presented a theoretical model that seeks to show the positive relations of causality between the sense of belonging on the dimensions of local identity and the following hypotheses:

- H1a- There is no gender effect on quality of life attributes evaluation.
- H1b- There is no gender effect on place attachment measures.
- H2- Natives will evaluate the attributes of quality of life more favorably than non-native residents.
- H3a, b, c, d- place attachment, self-esteem, social identification and self-efficacy, are positively correlated with the attributes of quality of life.
- H4. Social identification is positively correlated with place attachment.
- H5. Place attachment foster both place-referent continuity and congruent continuity.
- H6. Respondents who are linked to the city will express more self-esteem. So self-esteem is positively correlated with place attachment.
- H7. Place attachment is positively correlated with self-efficacy.
- H8. Happiness is explained by place attachment and quality of life attributes.

## Methodology

This study aims to describe the profile of students from 17 basic schools de Gaia, in terms of self-efficacy, social identification, self-esteem and continuity, given the moderating influence of demographic characteristics. The level of analysis was defined geographically as the "city of Gaia" by limiting its meaning to the center of the city and its boundaries (river and sea coast), because there are some disparities between the urban center and some rural parishes.

## Sample

In August of 2008, a sample of 207 subjects (47.3% male and 52.7% female) responded to a self-administered questionnaire in classroom with teacher support. Respondents were selected among the student population of 17 first cycle basic education schools that will receive the basketball tables. Subjects were aged between 9 and 12 years (mean = 8.76, SD = 0.83). In this sample, 84.5% of respondents were born in Gaia, while the rest were born mainly in Porto (13.5%) or surrounding areas.

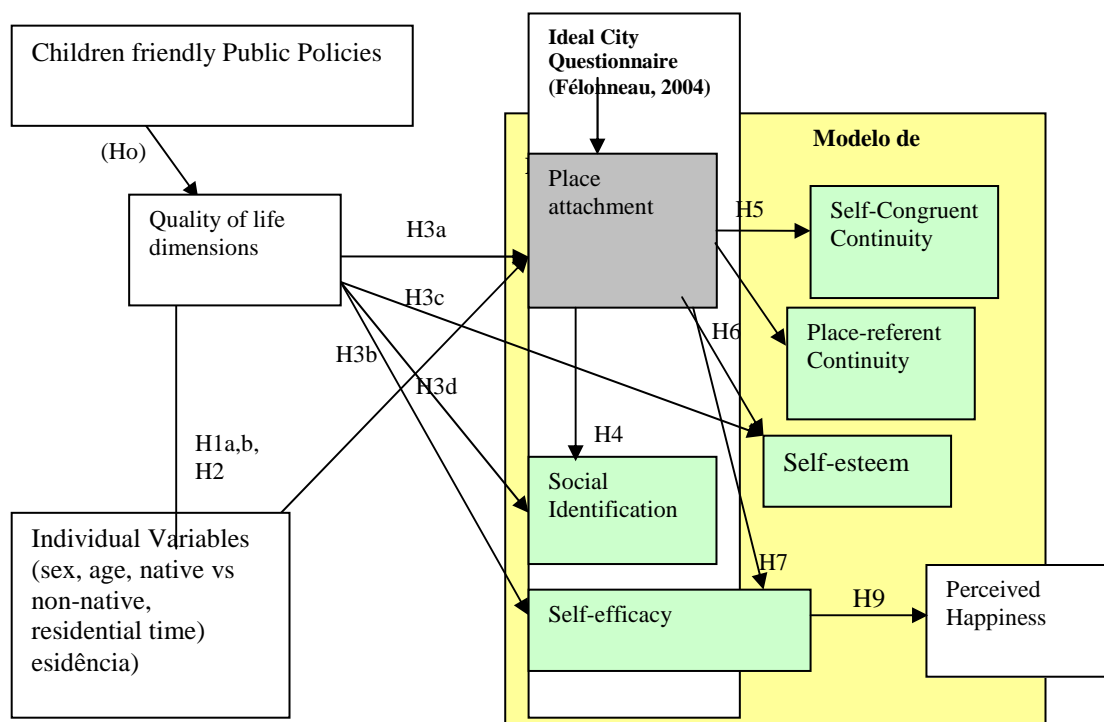


Figure 3 - Theoretical Framework.

## Measures

Based on the questionnaires of Félonneau (2004), Hidalgo and Hernandez (2001) and Knez (2005) a questionnaire consisting of three sections was built: Section A- The attributes of quality of life of the city, the subjects were asked to evaluate the city in the first 16 items (see Table 1) using a Likert scale (1-Nothing to 4- Very much); Section B: The evaluation was done

	N	M	SD	
1) In Gaia there are (no / few / enough/ many) fun activities for my age	207	3,1546	,82159	
2) In Gaia there are (no / few / enough / many) gardens and green areas	207	3,0000	,80049	
3) Gaia is a city (nothing / less / quite / very) clean.	206	2,7330	,79116	
4) Gaia is a city (nothing / less / quite / very) funny and animated.	206	3,0874	,77908	
5) Gaia is a city (nothing / less / quite / very) quiet and peaceful.	204	2,7255	,82637	
6) Gaia is a city (very bad / bad / good / very good) for making friends.	204	3,3088	,68605	
7) Gaia is a city with (no /less / quite / very) polluted air.	207	2,4106	,89794	
8) Gaia is a city of (no / few/ enough / many) monuments and heritage buildings	205	2,6927	,86217	
9) Gaia is a city with (no / few / enough / many) traffic jams.	204	3,1520	,80114	N<R*
10) Gaia is a city (very bad / bad / good/ very good) for walking.	204	3,2353	,71129	
11) When will I am on the street I feel (no / less / enough / too much) fear of being assaulted	207	2,5845	1,05267	F>M**
12) Gaia is a city (nothing / little / enough / too) "in" and "fashionable"	205	2,9805	,86863	
13) Gaia is a city (very bad /bad / good / very good) for shopping	207	3,3961	,70888	
14) Gaia is a city where people (never/ sometimes /often/ always) help each other	206	2,8155	,87510	
15) Gaia is a city (very bad/ bad / good/ very good) for sports.	207	3,2512	,77252	
16) I think Gaia is a city (nothing / less / quite / very) ugly	207	1,2271	,46388	
17) My school has (very bad / bad / good / very good) conditions to do sport	207	2,9855	,98276	
18) My school has (very bad / bad / good / very good) conditions to study.	207	3,5652	,58654	
19) My school has (very bad / bad / good / very good) conditions in science and computers.	206	2,8883	,94335	
20) My school has (very bad / bad / good / very good) conditions to play.	206	3,3350	,73215	F>M*
21) I really like (nothing / a little / a lot / very much) to live in Gaia	204	3,5441	,66807	
22) I like (nothing / little / a lot/ very much) the people in the area where I live.	204	3,3529	,76432	
23) I know Gaia (very bad / bad / good / very good	206	3,0728	,78990	
24) I would like (nothing / little / a lot / very much) to live in a different city	207	1,8068	,99091	
25) ) I imagine my future living in (Gaia / another city).	204	1,2206	,41566	
26) I live with (very bad / bad / good / very good) comfort conditions at my home	207	3,7053	,52613	F>M*
27) I feel (nothing / less / quite / very) happy in the environment that surrounds me	206	3,4369	,67238	
28) I have (no, less, some, very) proud to live in Gaia.	207	3,6280	,63992	
29) Gaia has (not got, got) everything you need to live.	207	1,9614	,21689	
30) I like (very much, a lot, little, nothing) to say that I am from Gaia.	207	1,7101	,86633	

Table 1 - Attributes of quality of life of Gaia according to children evaluation

Legend:M –mean; SD- standard deviation;

\* (p&lt;0,05) e \*\* (p&lt;0,01) significant Spearman correlation coefficients with residential time

(F&gt;M) - \*(p&lt;0,05) \*\* (p&lt;0,01) significant means differences according to t Student test (Mgirls &gt; Mboys).

(N&lt;R) - \*(p&lt;0,05) \*\* (p&lt;0,01) significant means differences according to t Student test (Mnative &lt; Mnon-native).

with school items 17-20 (see Table 1). The remaining 10 items measured: self-esteem, continuity, happiness and self-efficacy; Section C: image perception was measured through content analysis of associations elicited in response to the question "How would you describe Gaia for a foreign friend? "" Imagine that Gaia is a person, how would you describe her / him? "(an indicator of brand personality Gaia)

## Discussion of Results

Most respondents, when asked to describe the city for a foreign friend showed different associations almost all positive, such as "pretty / beautiful" (38.7%), "trendy / cool" (7.2%) "large" (6.2%), "great for living" (5.7%). Children also describes Gaia as "a person" with the following attributes: "beautiful" (26%), "cool / fun "(15.3%)," spectacular / great "(12.2%). In terms of the attributes of quality of city life, Gaia received a positive evaluation, representing the perception of momentum resulting from the recent development," good for shopping "," make sport "or" good to make friends "(see Table 1). There are some negative aspects mentioned by respondents as pollution or safety. A factor analysis of the attributes of quality of life of the city (see Table 2) resulted in the extraction of five factors that explained 53.28% of the variance: Factor 1 - Solidarity, Factor 2 – Heritage; Factor 3 – Beauty, Factor 4 - Pollution, Factor 5- Cleanness.

	<i>Factor-1 Solidarity</i>	<i>Factor 2 Heritage</i>	<i>Factor 3 Beauty</i>	<i>Factor 4 Pollution</i>	<i>Factor 5 Cleanness</i>
<i>Q14- Solidarity</i>	<i>,744</i>				
<i>Q1- Culture</i>	<i>,681</i>				
<i>Q4- Animation</i>	<i>,599</i>		<i>,326</i>		
<i>Q5- Tranquility</i>	<i>,530</i>				<i>,416</i>
<i>Q6- Social relations</i>	<i>,436</i>		<i>,405</i>		
<i>Q2- Gardens and green spQe</i>	<i>,420</i>		<i>,323</i>		<i>-,376</i>
<i>Q8- Heritage</i>		<i>,736</i>			
<i>Q12- Fashion</i>		<i>,698</i>			
<i>Q13- Shopping</i>		<i>,609</i>			
<i>Q16- Beautiful</i>			<i>,699</i>		
<i>Q10- Walkability</i>			<i>,552</i>		<i>,453</i>
<i>Q15- Sport Qtivities</i>			<i>,508</i>		
<i>Q7- Poluttion</i>				<i>,777</i>	
<i>Q11- Security</i>				<i>,566</i>	
<i>Q9- Traffic Jams</i>				<i>,560</i>	
<i>Q3- Cleanness</i>					<i>,750</i>

*Table 2 - Factor Analysis of Attributes of Quality of Life (Matrix components after varimax rotation).  
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. The  
rotation converged in nine iterations. N = 189  
Kaiser-Meyer-Olkin Measure of Sampling Adequacy = 0.722.  
Bartlett's Test of sphericity: Approx. Chi-Square = 469.482, df = 120, p < 0.001.  
The values were eliminated load factor less than 0.30.*

Table 1 also describes the variables related to place attachment. Generally, the scores are high, especially self-esteem "I am proud to live Gaia" ( $M = 3,62$ ) or the sense of belonging "I like to say that I am from Gaia" which shows a good performance of recent policies public which are reflected in the perceived level of happiness ( $M = 3,44$ ). Moreover, 95.2% said to have everything they need to live (Q29). However, 22.1% of children think about moving to another city (Q25).

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	2,306	,286		8,057	,000		
Q24 –Continuity	-,188	,046	-,310	-4,098	,000	,798	1,253
Q10-walkability	,125	,059	,148	2,104	,037	,921	1,085
Q13-Shopping	,140	,057	,172	2,472	,014	,939	1,065
Q25- Future	,282	,109	,194	2,587	,011	,808	1,238
Q14- Solidarity	,104	,048	,153	2,186	,030	,931	1,074

Table 3 - Standardized Beta Coefficients of explanatory variables of happiness obtained by multiple linear regression.

Dependent Variable: Q27-Happiness; Durbin-Watson= 1,99.

	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16	Q17	Q18	Q19	Q20
Q21	,233**	,256**		,300**		,162*						,161*	,155*	,303**	,206**			,192**		,217**
Q22	,164*	,259**		,206**	,186**	,167*		,209**		,281**			,225**	,273**	,222**		,140*	,172*		,205**
Q23	,184**			,230**	,152*					,207**				,281**	,206**	-,171*	,306**	,211**	,157*	,314**
Q24		-,140*	-,139*	-,209**										-,148*		,198**				
Q25			-,205**	-,203**	-,168*										-,149*					
Q26				,273**		,218**										-,140*	,279**	,290**	,184**	,317**
Q27				,193**				,157*		,293**			,289**	,272**		-,146*		,182**		,179*
Q28	,190**	,151*	,301**	,306**	,214**		-,200**			,167*				,263**	,247**	-,246**	,235**	,234**	,169*	,257**
Q29																				
Q30				-,151*		-,201**			-,194**	,015			-,170*	-,205**	-,201**					

Table 4 - Spearman correlation coefficients between dimensions of place attachment and quality of life attributes.

Legend: \*  $p < 0.05$ , \*\*  $p < 0.01$

A multiple linear regression model ( $R=0.455$ ,  $R^2=0.207$ ,  $F_{5,174} = 9.102$ ,  $p < 0.001$ ) (See Table 3), confirmed that happiness is explained by the intention to remain in place (Q24-continuity), self-efficacy (Q25) and the attributes of quality of life (walkability, shopping and solidarity between people) (H8 validated). Finally, a factor analysis ( $KMO = 0.76$ ) of the dependent measures extracted four factors that accounted for 55% of the total variance: Factor 1 - School; Factor 2 - Self-efficacy; Factor 3 - Happiness; Factor 4 - Resources.

There is an gender effect because girls gave significantly ( $p < 0.05$ ) higher scores in terms of "perception of insecurity", "the conditions of school to play" and "comfort conditions (see Table 1) which contradicts the hypothesis H1a. Furthermore there was no difference between

boys and girls in the ratings of the dimensions of place attachment, thus validating the hypothesis H1b. Natives of Gaia, comparing with those born in other municipalities, perceive the city as having a higher level of urban traffic (H2 partially validated).

68,5% of children claimed to like "a lot" to live in Gaia, while only 19.8%" would like to change the city they live". 92.7% of children feel fairly or very happy where they live. Moreover, 25.9% feel some or very (69.6%) proud to live in Gaia. 95.2% of respondents think that Gaia has everything they need to carry out their projects in the future (self-efficacy).

	Q22	Q23	Q24	Q25	Q26	Q27	Q28	Q29	Q30
Q21self-esteem	,237**		-,171*	,167*	,179*	,189**	,324**	,163*	-,276**
Q22-like people	1,000		-,138*			,217**	,154*		
Q23-knowledge		1,000			,253**		,312**		
Q24-continuity			1,000	,392**		-,267**	,347**		,187**
Q25-future projects				1,000		,	-,389**	-,176*	,240**
Q26-home comfort					1,000	,252**	,209**	,152*	
Q27-happiness						1,000	,220**		-,201**
Q28-proud							1,000		-,276**
Q29- self-efficacy								1,000	-,170*
Q30- social identification									1,000

Table 5 - Spearman correlation coefficients between dimensions of attachment to place.

\*  $p < 0.05$ , \*\*  $p < 0.01$

As presented in Table 4, self-efficacy (Q29) is not correlated with any attributes of quality of life (H3d rejected). However, self-esteem (Q28) is correlated with several attributes of quality of life (validated H3d). Social identification (Q30) is positively correlated with place attachment (Q21, Q24, inverted question), which requires the validation of hypothesis H4 (see Table 5). Respondents who are connected to the city expressed a positive self-esteem (Q28, H6 validated). Finally, place attachment (Q21) is positively correlated with self-efficacy (Q29) but place continuity is not significantly correlated with self-efficacy (H7 partially validated).

## Conclusions and future research

This paper aims to provide public policy makers a set of indicators to assess the impact of policies and marketing strategies geared to territorial residents and particularly for children. This article describes only the first step in a study assessing the impacts of a program of events - "GAIA 100 years."

In terms of the attributes of quality of city life, Gaia received a positive evaluation, representing the perception of momentum resulting from the "existence of fun activities for children", "good to make friends", "good to go shopping," or "walking" (walkability). These last two features together with the continuity, solidarity and self-efficacy are the basis of perceived happiness. A factor analysis of the attributes of quality of life of the city resulted in



the extraction of five factors: "Solidarity/culture", "Heritage", "Beauty/Walkability", "Pollution" and "Cleanness".

This study will be complemented by a study (to be held at the end of the program of events) in order to assess the impact of this project in four target groups: 1) residents, 2) the student population (who attend schools that will receive the tables of basketball), 3) sponsors / partners in the project, 4) and tourists.

## Biography

**António Azevedo** received his PhD in Management Science from Economics and Management School of Minho University (EEG-UM), Braga, Portugal. He is Assistant Professor in EEG-UM, and also at Management and Administration Higher Education Institute- ISLA in Gaia, Portugal. His topics of research are: place branding strategy; relationship marketing; advertising processing; consumer behaviour; psychographics; marketing communications; crisis communications and management.

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## GOOD ENVIRONMENTAL PRACTICES IN THE WINE INDUSTRY: THE CASE OF A COOPERATIVE

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### Abstract

This investigation analyzes, from a multidisciplinary point of view, the potential effects of good environmental practices on strategic behaviors in the wine industry, as well as their ecological and economic results. A cooperative group in this industry provides the study context; the authors investigate how it confronts threats from its environment. The results show that managerial commitment has been the main promoter of good environmental practices, mostly those that are easy to apply, demand low economic costs, and allow for improvements in the productivity and quality of the products. This study also offers a series of implications to contribute to existing knowledge about success factors for environmental strategies, especially in the wine industry.

**Keywords:** Ecological strategy; Good environmental practices; Wine industry; Case study

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### Introduction

The Spanish wine sector confronts a series of threats related to recent changes in the environment that will dictate the survival of many companies. For example, emerging countries are growing increasingly competitive in the worldwide wine market, such as Australia and Chile; furthermore, winemakers face uncertainty about the appropriate

application of Common Market Organization (CMO) rules for wine, as passed at the end of 2007. Finally, Integrated Environmental Authorization exerts a significant influence.

Yet in this context, which prior research identifies as an ideal site for using environmental variables to gain competitive advantages (Aragón-Correa, García, and Hurtado, 2005; Brío, Fernández, and Junquera, 2005; Claver, Molina, and Tarí, 2005; Rivera and Molero, 2006; Rubio, Chamorro, and Miranda, 2007; Fundación Entorno, 2009), the percentage of firms that have pursued any type of environmental certification remains very low. From a business point of view, environmental responsibility still appears like a cost, without an added value for the final product. This study instead proposes that environmental responsibility should be recognized as an important source of competitive advantages (Claver et al., 2006) that can enhance the economic returns of companies, as well as aiding the environment. In particular, environmental concerns may improve such diverse features as the quality of the wine produced, lower costs of production, and expansions into new markets (Fraj and Matute, 2006).

This study attempts to further understanding of the environmental behavior of the wine business in Spain by studying a single case. This methodology enables us to discuss the pertinent phenomena within a real-life context (Cepeda, 2006; Hamel, Dufour, and Fortín, 1993; Yin, 2003). Therefore, we begin with a review of existing literature on the integration of environmental variables into business strategy, along with an identification of the environmental aspects of wine production, with which we can analyze the environmental impacts of the wine industry and identify ways that the firm management might take advantage of the benefits derived from an increasingly ecological market, including greater environmental consciousness, eco-efficiency, and stronger economic performance. In this sense, one of the main contributions of this work is the development of a series of implications derived from the case study, which provides a foundation that further research might use to generalize our results to the broader wine industry and perhaps beyond. Finally, by linking theoretical revisions and empirical evidence, we extract a series of conclusions that further understanding of the influence of ecological behaviors in the wine business.

## **Literature Review**

In modern competitive markets, firms' environmental pledges often constitute important elements. Firms' and consumers' increasing interest in environmental aspects indicates that this aspect should be included in the theory of organization (Gladwin, Kennelly, and Krause, 1995; Shrivastava, 1995a), as a new paradigm that derives from the company–environment relationship (Banerjee, 2002; Garrod and Chadwick, 1996). This paradigm entails a reconceptualization of organizational theories, as Hart (1995) and Jennings and Zandbergen (1995) attempt, by establishing an environmental theme in direct relation to a paradigm specific to the organization (Rueda, 2005). Hart (1995) functions within the perspective of resources and capacities and proposes three environmental strategies that can generate basic

resources to develop competitive assets for the organization. Jennings and Zandbergen (1995) instead analyze extensions of institutions to feature sustainability, including (1) acceptance and validation of sustainability within the organization, (2) construction of social and organizational contexts with the diffusion of sustainability practices, and (3) implantation of sustainability in constituent, normative, and regulative rules.

These articles provide a key reference point for ongoing investigations in this area. Literature on the relationship between the environment and companies has grown quite extensive; in Table I, we present some of the most recent studies in an attempt to discern the present situation and potential lines that require further investigation. Specifically, we identify five main research streams.

First, research centered on the influence of environmental concerns on strategic decisions within the company includes works by Christmann (2000), Hart (1995), Judge and Douglas (1998), Rugman and Verbeke (2000), and Sharma and Vredenburg (1998). This research stream suggests that environmental questions progressively influence firm strategies, which produce central environmental strategies, normally focused on the prevention of contamination, energy conservation, the design of ecological products, or the use of non-contaminating technologies. These efforts can also reduce production costs and increase product quality.

<i>Lines of Investigation</i>	<i>Representative Studies</i>
<i>Influence on strategic decision making</i>	<i>Bravo, Fraj and Matute, 2006; Christmann, 2000; Hart, 1995; Judge and Douglas, 1998; Rugman and Verbeke, 2000; Sharma and Vredenburg, 1998.</i>
<i>Influence on environmental regulations</i>	<i>Angell and Klassen, 1999; Del Brío, Fernández and Junquera, 2001; Henriques and Sadorsky, 1999; Murillo, Garcés and Rivera, 2004; Rugman and Verbeke, 2000; Russo and Fouts, 1997; Vicente and Ruiz, 2002.</i>
<i>Pressure groups</i>	<i>Azzone et al., 1997; Delmas, 2002; Buysse and Verbeke, 2003; Céspedes, Burgos and Álvarez, 2003; Collins and Usher, 2004; Garrod, 1997; Klassen and Vachon, 2003; Sharma and Henriques, 2005.</i>
<i>Role of management</i>	<i>Aragón-Correa, Matías and Senise, 2004; Banerjee, 2001 and 2002; Bansal and Roth, 2000; Del Brío and Junquera, 2001; Fineman, 1997; Jones, 1995; Sharma, 2000.</i>
<i>Introduction of good environmental practices</i>	<i>Angell and Klassen, 1999; Christmann, 2000; Henriques and Sadorsky, 1999; Sharma and Vredenburg, 1998.</i>

*Table I. Principle fields of investigation*

*Source: Barba and Atienza (2008).*

Second, another line of investigation identifies the role of public administrations and legislation for inducing environmental behaviors (Del Brío and Junquera, 2001; Del Brío, Fernández, and Junquera, 2001; Murillo, Garcés, and Rivera, 2004). Such legislation and environmental politics contribute to the increasing importance of the environment in company decisions (Angell and Klassen, 1999; Henriques and Sadorsky, 1999; Russo and Fouts, 1997; Vicente and Ruiz, 2002).

Third, investigators continue to devote significant attention to analyses of pressure groups from an environmental perspective (Garrod, 1997). These studies even can be divided into four groups (Céspedes, Burgos, and Álvarez, 2003): (1) studies that emphasize the role of external pressure groups on the valuations of output and environmental risk (Klassen and Vachon, 2003; Sharma and Henriques, 2005); (2) those that note the importance of interest groups that encourage companies to adopt communication and environmental information programs (Azzone et al., 1997); (3) investigations that identify the most relevant pressure groups for various environmental questions and study their influence on the firm's environmental strategy (Buysse and Verbeke, 2003; Céspedes, Burgos, and Álvarez, 2003); and (4) studies that analyze the cooperation between the company and such external groups (Collins and Usher, 2004; Delmas, 2002).

Fourth, some works assert that direction is key to managing environmental strategies. For example, Aragón-Correa, Matíasm and Senise (2004), Banerjee (2002), Bansal and Roth (2000), Del Brío and Junquera (2001), Fineman (1997), Jones (1995), and Sharma (2000) confirm that stronger direction encourages a more respectful attitude toward the environment. The level of commitment shown by firm directors determines the firm's willingness to adapt its present practices.

Fifth and finally, articles deal with the development of good practices in environmental management. Authors such as Angell and Klassen (1999), Christmann (2000), Henriques and Sadorsky (1999), and Sharma and Vredenburg, (1998) cite the level of implementation of a series of good environmental practices as a means to measure the environmental awareness of a firm.

Most literature pertaining to strategic environmental behaviors thus relies on a theoretical approach. Murillo (2007) considers this state of affairs insufficient to study the relationship between the environment and the company's strategy, whereas a joint consideration of different approaches and theories would offer a more comprehensive and enriching vision of these behaviors. Therefore, we opt for a case methodology, which is especially useful and adequate for the study of complex and dynamic phenomena and those characterized by processes of change and innovation (Cepeda, 2006; Yin, 2003).

## Case Study Description

### Methodological overview

To conduct our investigation, we adopted a qualitative methodology based on prior work describing case studies (Creswell, 1998; Eisenhardt, 1989; George and Bennett, 2005; Stake, 1995; Yin, 2003), a methodology that appears more and more frequently in business economics (Cepeda, 2006). Case studies can document experiences that actually occur in the companies, provide a means to learn from those experiences, and suggest theories derived from those lessons (Bonache, 1999). We conceive of our case study in particular as a complementary and quantitative methodology that, together with a theoretical revision, enables us to generate theoretical implications that can be tested empirically using a wider sample (Yin, 2003). Our longitudinal case study is designed to enhance understanding of how the integration of good environmental practices might affect the management of wine cellars, both strategically and operationally.

In Table II, we summarize the technical details of our case study. Our first visit to the company took place in March 2007. During that visit, we conducted various, in-depth interviews, each approximately two hours in length, with various members of the company's management (see Figure 1), including the manager, the agricultural engineer in charge of vineyard plant advice, the enologist, and the person in charge of the General Administration Department. By including these varying professionals from within the company, we improve the validity of our results. We also conducted four subsequent visits, in which we took tours of the vineyards and interviewed various responsible employees. Therefore, we adopt a practical approach toward this study; our follow-up visits enabled us to clear up any gaps in our information or vague interpretations.

<i>Source Type</i>	<i>Source of Information</i>	<i>Type of Data Obtained</i>	<i>Data Collection Period</i>
<i>Primary</i>	<i>Interviews:</i> - <i>Manager</i> - <i>Agricultural Engineer</i> - <i>Enologist</i> - <i>Administration Director</i>	<i>Qualitative</i>	<i>March 2007–March 2009</i>
<i>Secondary</i>	<i>Observation</i>	<i>Quantitative</i>	<i>March 2007–March 2009</i>
<i>Secondary</i>	<i>Documentation:</i> - <i>Internal</i> - <i>External</i>	<i>Quantitative</i>	<i>January 2005–December 2008</i> <i>March 2007–March 2009</i>

Table II. Technical data pertaining to the case study

We employed direct observation (i.e., visits to the vineyards and employee contacts), analyses of inside documentation (e.g., annual reports from 2005–2008), and external sources (e.g., media, Web sites). The company's Web page (<http://www.vinos-saac.com>) included

information about the types of products the company offers; external sites, such as <http://www.MeGuias.com> and <http://www.e-informacom>, provide additional information.

During the data collection phase (March 2007–March 2009), we relied on primary and secondary sources to triangulate our data (Yin, 2003). Thus, we apply one of the basic principles of qualitative research, namely, that the evidence provided by a case is more convincing when it emerges from a broad range of data sources (Rial et al., 2005). In this sense, our result appear valid, not artifacts of an artificial methodology (Bouchard, 1996; Yin, 1998).

In Table III, we apply the quality criteria developed by Kein and Myers (1999) to our case. It meets these criteria; the theoretical generalizations we obtain and state in the form of implications are appropriate as input for an empirical study with a quantitative analysis.








<i>Principle</i>	<i>Evaluation Items</i>	<i>Self-Evaluation of Case Development</i>
<i>Fundamental: hermeneutics circle</i>	<i>Does the investigator shift through the interpretations and the data of the case (backwards and forwards), to guide the application of the other six principles and cover gaps or contradictions?</i>	
<i>Contextualization</i>	<i>Does the case fix the object of study within its historical, political, economic, and social context?</i>	
<i>Interaction between the investigators and the subjects</i>	<i>Does the case describe how the collection of data and the interpretations made have affected them mutually? Does it describe what effects the study has on the participants in the case?</i>	
<i>Abstraction and generalization</i>	<i>Do the authors achieve theoretical generalizations from the results that contribute to the case?</i>	
<i>Dialectic reasoning</i>	<i>Do the authors confront their budgets, which determine the design of the initial investigation, with data that arises from the dynamics of the investigation? Is this relation explicit in the writing of the case?</i>	
<i>Multiple interpretations</i>	<i>Does the case show all the alternative points of view of the participants in the case? How do the authors reconcile them?</i>	
<i>Suspicion</i>	<i>Do the authors adopt a critical perspective and not take as absolute all the affirmations from the participants in the case?</i>	

Table III. Quality criteria for the case

Source: Extension of Kerin and Myers (1999), as adapted by Cepeda (2006).



### **The San Antonio Abad Cooperative Society**

This cooperative is situated in Villamalea, a village in the province of Albacete, north of the La Manchuela region, between Madrid and Valencia (Spain). This village has a long wine-producing tradition, and the cultivation of grapevines and the production of wine are much more than just work. The wine culture infuses the spirit and the tradition of the entire village, even providing a way to understand life in general.

In the 1940s, the cultivation of grapevines began to extend into Villamalea, forcing farmers to transport their fruit, using rudimentary machinery, to neighboring villages, because the wine cellars in Villamalea were not sufficient to contain the ever-increasing grape production. To avoid these displacements but confronted with the wine cellar owners' refusal to extend their installations, many farmers opted to create their own wine cellars and ferment their own wine. However, this wine had to be sold to the owners of the wine cellars, who previously had not accepted the grape, or be transported to the neighboring villages for sale.

Faced with this new conundrum, the farmers found an answer in legislation passed during that era. The Rural Development Plan encouraged so-called Colonization Groups to sell products commercially, with the help of the government. In the case of the wine-growing sector, this help came from the Board of Purchases of Surplus Wine. In response, various enterprising farmers formed the Wine Cooperative of Villamalea, and with the help of a loan, they bought land and materials to construct their Cooperative. The collateral for this loan was the farmers' property, and their manual labor was donated for free. In 1947, the San Antonio Abad Cooperative Society opened; its creation contributed to the economic development of Villamalea, improved the quality of the wines and services to associates, led to the cultivation of more vineyards, and promoted the extension of the cooperative on successive occasions.

At present, it consists of 1330 cooperative partners, of which 860 are wine producers, with approximately 4640 working vineyards that extend over an area of 4452 hectares. This cooperative elaborates and commercializes its liquids, with a production level of approximately 20,000,000 liters of wine, of which 14,000,000 gets sold as table wine, 5,000,000 as vin de pays, and 1,000,000 as D.O. Manchuela wine.

With respect to its organizational structure, the Cooperative consists of four sections, each with a unique responsibility:

- 1) The phytosanitary product section dispenses products needed to support the daily activity of cultivating grapes, such as fertilizers, pruning shears, and boots.
- 2) The oil-press section provides oil for the exclusive consumption of the Cooperative associates, which represents a benefit of the service for the members.
- 3) The agricultural machinery section loans machinery service to the associates who need it. Some associates live in Valencia, others are already retired or perform other work,

and still other simply do not have the time to look after their fields. This section therefore provides tractors, generators, and personnel necessary to complete agricultural jobs.

4) The wine cellar section constitutes the main activity of the Cooperative and the object of our study (see Figure 1).

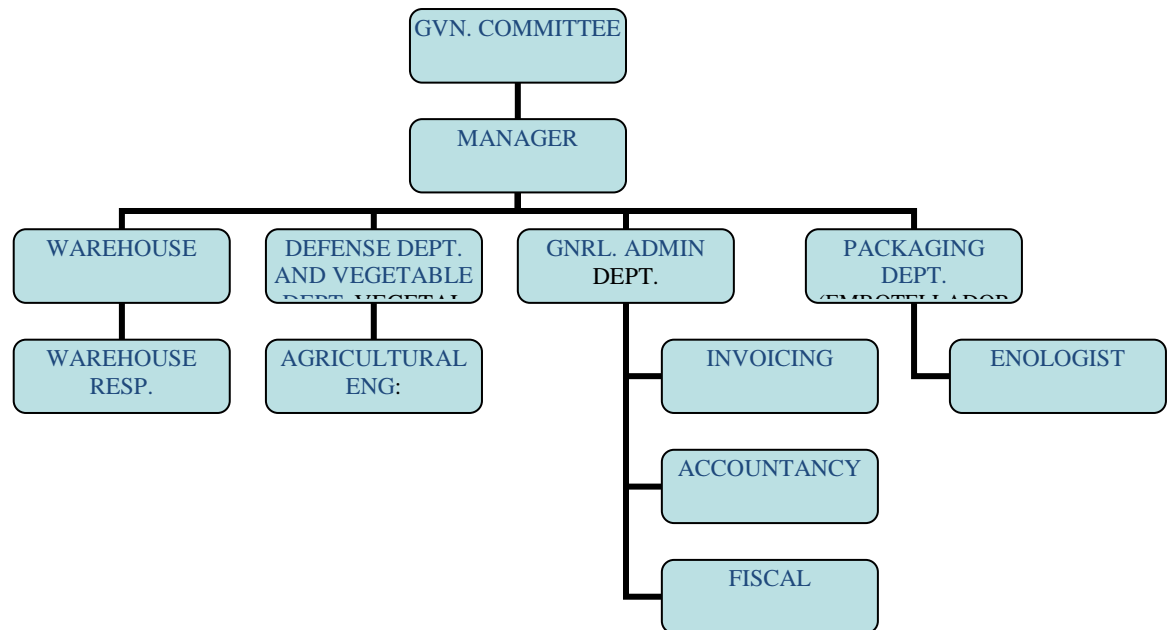


Figure 1: Flow chart of the San Antonio Adab Cooperative (wine cellar section)

## Main Findings

### Environmental aspects

The environmental aspects pertinent to the San Antonio Abad Cooperative that might generate impacts on the natural environment, and could extrapolate to other actors in this industry, relate to the following activities:

*Insurance of prime materials.* Grapes do not always enter into the wine cellar in optimum condition, due to inefficient transport, mistakes, or bad practices during the grape harvest. Grapes deteriorate easily and can enter premature fermentations as a result of bad handling, which likely creates occasional losses in the output of the winemaking process and an increase in the volume of residue that does not achieve the quality required for the end product.

*Bottling.* The wine sector attaches a lot of importance to bottling and packaging as marketing and image tools. The packaging usually features eye-catching designs, which generate costs beyond just the purchase of these bottles, as well as the byproducts of applying the labels, including potential residue. The Cooperative usually integrates systems for managing the packing, as established by legislation, such that all the bottles connected to its

production undergo the same bottling process, whether destined to be sold to final consumers or industries, trade, and so on.

*Consumption of electrical energy.* The main source of energy that the cooperative uses is electrical energy, which has repercussions for the costs of production. Several machines, due to their high energy consumption, are especially relevant for this analysis of environmental impacts (e.g., hoppers, picks, pumps, pressure cleaning equipment, bottling plants, labelers, packers, refrigeration installations, lighting, offices and warehouses). Refrigeration and fermentation systems and, to a lesser degree, stabilization are the main consumers of energy.

*Water consumption.* During the grape harvest, which coincides with the period during which the wine cellar engages in the most activity, the consumption of water is at its highest. Water is needed for a multitude of processes and jobs, including cleaning the hoppers and picks, the presses, the tanks, wine presses, barrels, bottles and bottling plants, refrigeration equipment, and floors.

*Spillage.* Some spillages occur as a result of the cleaning processes, but other types of spillage refer to pilfering, loss of wine, sanitary water, and laboratory water. While conducting intermediate operations, inadequate processes, rasps, waste, and dirt, which contain excessive amounts of organic matter, get dumped into the water; the deposits and barrels can contain salts, such as tartrates and bitartrates; and strong wines usually have an acidic PH. The use of hydro-cyclones and centrifuges to eliminate the tartrates from the wine supposedly benefit the process and minimize the consumption of water for cleaning, as well as avoiding the generation of residues because they do not require soil for filtering. The failure to use ecological filters can contaminate the fields .

*Atmospheric emissions.* In general, these emissions are relatively insignificant. The combustible gases from the boilers and the combustible fossils used in the burners produce CO<sub>2</sub> during the fermentation of the grape juices and SO<sub>2</sub>, produced from the sulphate in the grape juices and wines.

*Generation of residues.* Residues consist of three types: those from the acquired products and/or packaging in the wine cellar, such as glass, paper, card, plastic, and wood, which are easily recyclable or reusable; the marcs, rasps, and mess, which represent byproducts from the fabrication of wine and can be used as organic fertilizers; and agricultural residues that result from grape pruning.

These findings and derivatives of the environmental impacts of the wine cellar lead to a relevant research proposition:

*Proposition 1: The level and variety of environmental elements of business activities relate positively to the incorporation of good environmental practices.*

### Ecological Strategy and Environmental Practices

Environmental questions progressively influence companies' strategies, centered on the prevention of contamination, energy conservation, the design of ecological products, the use of noncontaminating technologies, cost reductions, recycling, and the use of recycled materials. These goals also can have positive effects on costs, product quality, and market extensions (Fraj and Matute, 2006; Martín-Peña and Díaz, 2006).

Aragón-Correa (1997) and Sharma and Vredenburg (1998) argue that a firm's environmental strategy materializes in the form of the environmental practices it selects at its origin and the degree to which these practices are developed and coherent. Other authors, such as Buysee and Verbeke (2003), instead propose that the environmental strategies of companies can be characterized on the basis of three patterns: legal fulfillment, punctual practices that simultaneously and immediately allow for environmental and competitive improvements, and proactive practices.

Many other classifications exist, but the two extreme positions most often distinguished are environmental reactivity and environmental proactivity. The former occurs when companies simply look to follow existing legislation and limit themselves to introducing the bare minimum of changes, such as those required by legalization or demanded by powerful interest groups, such as consumers, shareholders, or the community (Angell and Klassen, 1999; Henriques and Sadorsky, 1999; Russo and Fouts, 1997). At the other end of the spectrum, environmental proactivity involves a demonstration of growing social sensitivity toward the environment and implies voluntary adoption of methods that contribute to reduce the firm's impact on its natural surroundings. Authors such as Angell and Klassen (1999), Christmann (2000), Henriques and Sadorsky (1999), and Sharma and Vredenburg (1998) measure such proactivity, awareness, or environmental implication, usually according to the implementation of a series of good environmental practices by the company.

But the actions companies carry out may vary, and their integration of the variables may occur at different strategic levels (González-Benito and González-Benito, 2005), depending on managerial perceptions of the importance of the aspects (Banerjee, 2001). In general, companies whose economic activity has a high impact on its natural surroundings will be more inclined to conduct environmental strategies at all levels. The San Antonio Abad Cooperative Society has implemented the following environmental practices:

*Progressive use of clean energy.*

a. *Solar energy.* At the end of 2007, the Cooperative installed a solar garden, with the consideration that solar energy would be a clean energy source that was well adapted to its needs. The technical solar energy application provides heating and hot water for the offices and the oil press; the solar photovoltaic energy transforms solar energy into electrical energy and uses it to cover 20% of the electrical needs of the wine cellar. This experience was very

positive for the group, so by 2009 it forecast an increase of the solar garden that could cover 50% of its energy needs.

b. *Biomass.* The cooperative is considering the use of agricultural wooden residues (i.e., remains from pruning olive trees and vines and the straw from cereals), as well as the residues of the oil press and wine cellar (e.g., olive stones, skins and seeds of grapes) as biomass. This new source of energy would enable the Cooperative to avoid burning or recycling these residues. However, the costs of chipping or cutting down the material for transport are high. The group is assessing possible alternative means, and future studies will encompass specialized investigations of this topic.

*Recycling of residues:* The residues from the oil press currently are recycled in a recycling plant situated in another village in Albacete (Spain). A specialized company collects these residues and transforms them into chemical and organic fertilizers. The Cooperative separates its glass, paper, cardboard, plastic, and wood that is left over from bought and packaged products in the wine cellar. Another specialized company collects this waste for recycling. Therefore, management highlights the importance of reducing and controlling the amount of residue generated. It may become necessary to find a better use for or remove the agricultural residues that generate alternative energy as biomass. The creation of a biomass generating plant is under study.

*Reducing water consumption.* The rational use of water helps reduce the environmental impact of the wine cellar, as well as costs. The Cooperative has undertaken:

- a. Installation of meters in the machines that consume the most water. This system helps control the amount of water used, as well as prevent leaks.
- b. Mechanical sweepers to clean the systems.
- c. More effective pressure cleaning methods that use less water.
- d. Periodic revisions of the systems to ensure their proper functioning.
- e. Encouragement of awareness among personnel about the need to optimize water consumption.

*Managing the material.*

- a. Packaging and cans are closed carefully to avoid spillages.
- b. Scales test that the vintners use the correct amounts of prime materials to control efficiency.
- c. Industrial packages not destined for the end consumer (e.g., pallets, plastic or wooden boxes) are reusable.

*Reduction in electrical energy consumption.* The different equipment and electrical systems rely on methods that reduce energy consumption, such as:

a. Standby systems. For example, photocopiers automatically deactivate when not used for a determined amount of time.

b. Awareness among the personnel regarding the need to switch off machines and equipment during non-working hours (e.g., lunches, interruption in production).

*Treatment of residues.*

a. Dangerous residues, such as hydrochloric oils, used oils, fats, and solvents, are separated from the rest of the residues.

b. Waste and rasps are collected in open containers, because storage directly on the floor could lead to spillages that cause losses and contaminate the floor.

c. The first fraction of water used to wash the tanks, deposits, and casks gets sent, along with a fraction of wine, to the alcohol tester.

d. The residues from the process with an organic origin become prime material in other production processes (e.g., the rasps provide organic fertilizer for the grapes).

*Emissions and waste control.*

a. To control the emission of SO<sub>2</sub> from sulphated must and wines, SO<sub>2</sub> is handled in isolated, ventilated areas.

b. To inject SO<sub>2</sub> into storage, a rapid connection system immediately, automatically moves watery, sulphurous solution into the pipes of the grape harvest.

c. In compliance with the limits on atmospheric emissions, the Cooperative maintains all equipment in good condition and periodically cleans, filters, and purifies the gases.

d. Waste from the oenological laboratory is neutralized prior to being dumped.

e. Special attention is paid during the racking of products to avoid any accidental spillage.

*Other Practices.*

a. The requirements regarding the preservation of prime materials (grapes) and finished products (wines) are strictly observed. It is important to keep the storage time of the prime materials to a minimum; the stocks are managed to avoid residual waste when products expire.

b. A recently installed Danger and Critical Checkpoint Analysis system ensures the proper maintenance of all the installations.

c. The Cooperative tried to use as few solvents as possible for each operation.

On the basis of evidence drawn from the implementation of good environmental practices in the wine cellar that we study herein, we develop the following proposition:

*Proposition 2: The implementation and development of good environmental practices in the wine sector promotes proactivity in the company's ecological strategy, reinforces the organizational learning capacity, and generates advantages that enable better economic and environmental results.*

### **Factors Conditioning the Ecological Strategies**

The motives or factors that cause companies to implement environmental management systems are diverse and have evolved over time. Following Cruz, Úbeda, and Llimiñana (2005), we group the principle motives into two groups, which coincide with those pursued by the San Antonio Abad Cooperative Society:

*Internal motives.* These motives relate to improving the quality of the product or service, reducing costs, improving the infrastructure, promoting management quality, testing efficiency, managing quality, and improving staff satisfaction. In this respect, the Cooperative has undertaken a series of investments and improvements across all its sectors, with the priority of not only providing better service for its partners and enabling them to work in greater comfort and with greater benefits but also ensuring positive repercussions for its products. The improvements in the wine cellar take necessary measures to achieve a production process that achieves quality. The fermentation systems have been improved with efficient cooling equipment, micro-oxygenation systems, automation of the wine cellar, and wine and harvest improvements. Similarly, all storage tanks are made of stainless steel and installed with the capability to control the temperature of the wine constantly.

*External motives of the market.* Clients' demands, market trends, competition, the need to develop new markets, greater international competitiveness, and changes in the the market's quota all represent external motives. The company recently certified its quality control management, according to ISO-9000, and in the near future, it intends to implement ISO 14000 and ISO 22000 across all sections of the Cooperative. Furthermore, it recognizes demands that it extend to commercialization on national and worldwide levels.

Several factors identified in prior economic literature influence the limits of environmental strategic development though (Del Brío and Junquera, 2002a; Fraj and Matute, 2006):

*Financial resources:* A shortage in financial resources limits the environmental development of companies (Noci and Verganti, 1999).

*Human resources:* Environmental management is intensive in terms of human resources and requires the development of tacit skills among specialized employees (Hart, 1995).

*Organizational structure:* It is easier to introduce environmental practices into companies with a standardized and well-structured organization, which often are larger companies (Alberti et al., 2000).

*Role of higher management:* Managers' attitude toward caring for the environment decisively influences the environmental behavior of the company. That is, for the company to decide to initiate control practices or introduce an Environmental Management System (EMS),

managers a priori must realize sources of opportunities and threats from the sector that may affect their environmental actions (Claver et al., 2006).

*Environmental interest groups:* Their interest in protecting the natural environment encourages many interest groups to bring pressure on companies to force them to adopt environmental practices (Delmas and Toffel, 2004).

Despite our listing of them, these factors cannot be considered isolated elements; rather, they are strongly interrelated and comprehensively necessary to protect the coherence and effectiveness of an EMS in the company (Cruz, Úbeda, and Llimiñana, 2005). However, for this Cooperative, the support and conviction of management, together with the institutional grants management has been able to secure, have been two key factors for promoting good environmental practices.

These discoveries related to the principle facilitators of the integration of environmental variables suggest some interesting implications for management, which reaffirms the key role that prior literature grants this process, as we propose next:

*Proposition 3: The commitment of management relates positively to the incorporation of good environmental practices in a wine cellar.*

Additional investigations designed to test this implication will reveal whether this proposition holds for the wider wine industry.

### **Obstacles to adopting an ecological strategy**

Wood (1991) suggests that to improve the social output of a company, it must alter its behavior to reduce damages and produce beneficial results. However, in addition to than the agents that put pressure on a company to adopt ecologically responsible measures, a series of barriers represents obstacles to the adoption of such measures (Murillo, Garcés, and Rivera, 2004a). Authors such as Hillary (2003) and Izaguirre, Vicente, and Tamayo (2005) classify such barriers into two types: internal and external.

#### **Internal barriers**

The internal barriers to the company's environmental efforts include the following:

**Organizational restraints:** A poor commitment by managers, along with poor training or qualifications, can limit the effectiveness of environmental efforts. A lack of information enhances this effect, because neither the directors nor the consumers have a good understanding of the environmental problems (Hillary, 2003; Izaguirre, Vicente, and Tamayo, 2005; Murillo, Garcés, and Rivera, 2004b).

**Negative attitudes of directors:** In relation to environmental matters, an unfavorable business culture grants little importance to environmental investigations or the threat of environmental pressures. These attitudes prevent the company from introducing more advanced approaches to environmental management.



Technical and technological problems: Examples include the uncertainty and high cost associated with the introduction of new clean technologies, as well as the failure to make the best use of a range of economies and experience with old technologies (Murillo, Garcés, and Rivera, 2004; Río, 2002).

Other internal barriers: These barriers include a lack of resources, the difficulty of strategic and organizational changes, and the difficulties associated with the introduction of an EMS (Hillary, 2003; Río, 2002).

For the San Antonio Abad Cooperative, reluctance on the part of the workers, many of whom are cooperative partners, together with technical problems, have slowed the implementation of good environmental practices. Efforts designed to increase managerial awareness and the training received by some members have helped ease mitigate these barriers.

### **External barriers**

With respect to the external barriers, we summarize them as follows:

Investments to fulfill: Post and Altman (1994) suggest that the necessary investment in clean technologies and the high cost of ecological projects, as well as the costs associated with the introduction and certification of EMS, often prevent the introduction of ecological strategies. However, as Izaguirre, Vicente, and Tamayo (2005) confirm, the question becomes whether such costs can be compensated for by greater long-term profitability, due to improved competitiveness.

Inadequate regulations: Several authors criticize current regulations with regard to their lack of flexibility for the terms and forms of adaptation, the lack of information about regulations, and the need to focus on control strategies rather than prevention. Furthermore, they note certification costs and a lack of support and orientation (Hillary, 2003; Murillo, Garcés, and Rivera, 2004).

Pressure from shareholders: Pressure from this group may be an obstacle, in that an ecological strategy can reduce the short-term profitability of the company, which minimizes the investors' income (Izaguirre, Vicente, and Tamayo, 2005).

Uncertainty: The minimal development of the environmental sector translates into a shortage of information about clean environmental technologies and insufficient machinery/equipment, as well as a lack of services, such as environmental consultancy or the collection and reuse of residues (Murillo, Garcés, and Rivera, 2004).

In our case company, regulation has encouraged the implementation of good environmental practices, as accompanied by subsidies that aid the process of adaption and the introduction of clean technology. However, few qualified companies offer specialist services for recycling and collecting of residual waste, which is slowing the Cooperative's progress toward certification for its EMS.

These findings suggest the following research proposition, which contradicts the conclusions reached in existing prevailing literature (Hillary, 2003), such that further investigations are particularly desirable to determine whether this result generalizes to the wine industry as a whole:

Proposition 4: Greater governmental intervention in the wine sector, both positive (e.g., subsidies, support) and negative (e.g., greater requirements for environmental regulation), relate positively to the incorporation of good environmental practices in the company.

### **Competitive advantages derived from an environmental strategy**

Rivera and Molero (2002) affirm that the high costs associated with environmental actions and the small competitive advantages gained can demotivate companies from engaging in environmental actions. However, Ottman (1995) suggests that companies that target ecological consumers can make the most of their first-mover advantage with regard to offering less contaminating products. Proto and Supino (1999) also argue that the quality of environmental information presented by the company about its activities can provide a key source of competitive gains, with the possibility of increasing consumer loyalty. Claver, López, and Molina (2004) affirm that the savings in costs, associated with reducing the use of raw materials and energy and the improvement of the productive processes, actually can become important competitive advantages for companies. In this way, we can distinguish between two forms of advantages (Shrivastava, 1995a and Christmann, 2000):

Cost advantages: Environmental practices can reduce companies' general costs, through adequate management and the optimization of natural resource use, which reduces the consumption of energy, water, and raw materials, as well as the production of residues and waste (Porter and Van der Linde, 1995; Shrivastava, 1995b). Christmann (2000: 668) suggests that the integration of environmental efforts, in advance of competitors or in anticipation for the new regulations, "can contribute to advantages in costs in three ways: 1) the anticipation minimises the disruptions of the production processes associated with the development and introduction of required technologies; 2) the companies which integrate environmental questions with more speed can gain a competitive advantage by means of the learning curve; 3) the integration of environmental questions before an obligatory regulation appears can influence the development of this regulation, providing an advantage to pioneering companies." For our Cooperative, the cost advantages are associated with eco-efficiency, including reductions in the amount of water and energy consumed.

Differentiation advantages: Some specific practices contribute to reaching the competitive advantage of differentiation, such as the redesign of packaging and products in a manner that respects the environment, developing new products, and gaining publicity about the benefits thus derived (Peattie, 1997; Reinhardt, 1998). These benefits should support the development of an image that attracts consumers interested in the environmental characteristics of the products they buy (Carmona, Céspedes, and Burgos, 2003). The San Antonio Abad

Cooperative has received several international awards and committed itself to greater commercialization across more demanding segments of the market. To enter these market segments, it must bear an ecological or organic product label, which provides a distinctive sign of quality and know-how.

Finally, in relation to the competitive advantages derived from the integration of environmental issues into the management process, we present the following research proposition:

Proposition 5: The implementation of good environmental practices in the company relates positively to competitive advantages in both costs and differentiation.

## **Discussion and Implications**

The ever-more frequent and stringent regulations, as well as pressures from consumers, shareholders, and interest groups, force companies to advance rapidly along the track of sustainable development. By introducing environmental practices, they gain capacities that may allow them to surpass their competitors and satisfy their customers (Bansal and Bogner, 2002; Barney, 1991; Del Brío, Fernández, and Junquera, 2005; Porter and Van der Linde, 1995). They also must emphasize their ability to work with these stakeholders to ensure better treatment and find allies to support their sustainable growth. The capacity to generate understanding and further the learning process also enables firms to explore new market opportunities derived from their integration of the environmental variable into their business strategy. Finally, the capacity for innovation is necessary, because the integration of environmental considerations promotes the generation of innovative technologies.

By applying a case study methodology to the analysis of a wine-producing cooperative situated in Castilla-La Mancha (Spain), we observe how the implementation of the Danger and Critical Checkpoint Analysis System, a product of existing legislation, exerted rigorous controls on the emission of gases and the treatment of residues and residual waste. In addition, subsidies and expected savings on energy costs prompted the Cooperative to install solar panels and use renewable energy; it also is considering manufacturing biomass with the residues it generates.

However, the transformation of these capacities into competitive gains can occur in a sustainable way only if the Cooperative adopts a triple perspective that combines theories of resources and capacities, dynamic capacities, and cooperative social responsibility. The resources and environmental strategic capacities of the company, as well as its level of social obligation, suggest an ecological strategy that embraces a higher or lower degree of environmental proactivity, which in turn should influence to larger or smaller measure the generation of the competitive gains.

In the San Antonio Abad case, good environmental practices have a direct bearing on environmental problems but do not necessarily require massive changes in the existing

production processes. They are easy to apply, low in cost, and have immediate results, including a notable increase in the productivity and quality of the products, which in turn improves the economic results.

Moreover, the implementation of certifiable EMS offers several advantages, because systematic control over the processes reduces the possibility of errors and thus minimizes the consumption of resources and energy. In short, the expectation of obtaining certain advantages—lower costs, less energy consumption, fewer residue costs, increased public esteem and image, and stronger client relations—mean that this company, which already has gained Quality Management System certification, can now apply for the certification of its Environmental Management System.

Furthermore, we must take into account internal barriers that remain the main obstacle to the adoption of additional measures to protect the environment. However, if the directors perceive some of these barriers, whether external or internal, it will negatively influence the adoption of environmental practices (Post and Altman, 1994; Izaguirre, Vicente, and Tamayo, 2005).

<i>Elements Analyzed in this Case</i>	<i>Theoretical Propositions</i>	<i>In Accordance with Existing Research?</i>
<i>Environmental aspects</i>	<i>The level and variety of environmental aspects of the activities in the company influence its implementation of good environmental practices.</i>	✓
<i>Good environmental practices</i>	<i>The implementation and development of good environmental practices in the wine sector improve the company's economic and environmental results.</i>	✓
<i>Principal facilitator</i>	<i>The management's commitment plays a key role in the implementation of good environmental practices in the wine cellar.</i>	✓
<i>Principal barrier</i>	<i>Greater governmental intervention in the wine sector facilitates the incorporation of good environmental practices in the company.</i>	X
<i>Competitive advantages derived from the integration of the environmental variable:</i>	<i>The incorporation of good environmental practices in the company can involve obtaining competitive advantages, both in costs and in differentiation.</i>	✓

Table IV. Main theoretical propositions derived from the case study

The implementation of the EMS does not create any major problems for the company, other than the workers' complaints about the change in business culture. Therefore, management must exhibit a high level of commitment to motivate and raise awareness among the workers. Good environmental practices, such as the rational consumption of water, help minimize the environmental impact of the wine cellar.

Finally, with regard to the limitations and plans for the future, this study offers only an exploratory investigation (Yin, 2003), and its principal aim is to suggest new approaches toward studying environmental problems in the wine industry. In this respect, the in-depth case analysis suggests some theoretical propositions (Table IV) that should provide a starting point for quantitative investigations into a representative sample of companies from this sector. Such an investigation could offer statistically significant information about the presence of these environmental variables across the management of vineyard businesses and their results.

It would be particularly useful to conduct a fuller analysis of Proposition 4, regarding governmental intervention as a facilitator of good environmental practices, which contradicts existing research. More cases should be studied in both the wine sector and other agro-food sectors, which require greater governmental pressure to guarantee compliance with the legislation in force that governs environmental issues. Establishing fair rules of the game for all would help prevent unethical competitive practices.

Confirmatory analyses, both qualitative and quantitative, also would enable us to determine whether these results are applicable only to the specific wine Cooperative we study or can be generalized to the wine industry as a whole. In this sense, the principal limitation of this research project derives from our analysis of a single case only, though it represents a viable methodology, and we investigate one of the largest wine-producing regions in Europe.

## Biography

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## SOME ASPECTS OF THE IMPLEMENTATION OF VALUE BASED MANAGEMENT

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### Abstract

Surveys show that nowadays a large number of companies are using value based management (VBM) metrics not only to increase shareholder value but also to be attractive for investors and creditors. Up to now there's only research on how to implement VBM in a company best. The paper is aimed to find out and to describe the most important aspects of the implementation of VBM. Based on literature review we found the main aspects and describe the components and success factors for the implementation of VBM. The main findings of the paper are the key success factors for the implementation of VBM gained by comparing important public tions on that topic. The paper shall give a topical, general overview to cre-ate an empirical foundation for further research activities in this domain. The paper investigates the implementation of VBM from an academic perspective. Nevertheless the findings are very helpful for owners or managers considering VBM as an option to improve access to equity and liabilities as well as implementing a long-term orientated holistic enterprise management. The originality of this paper is that we combine the main findings on the topic based on literature review.

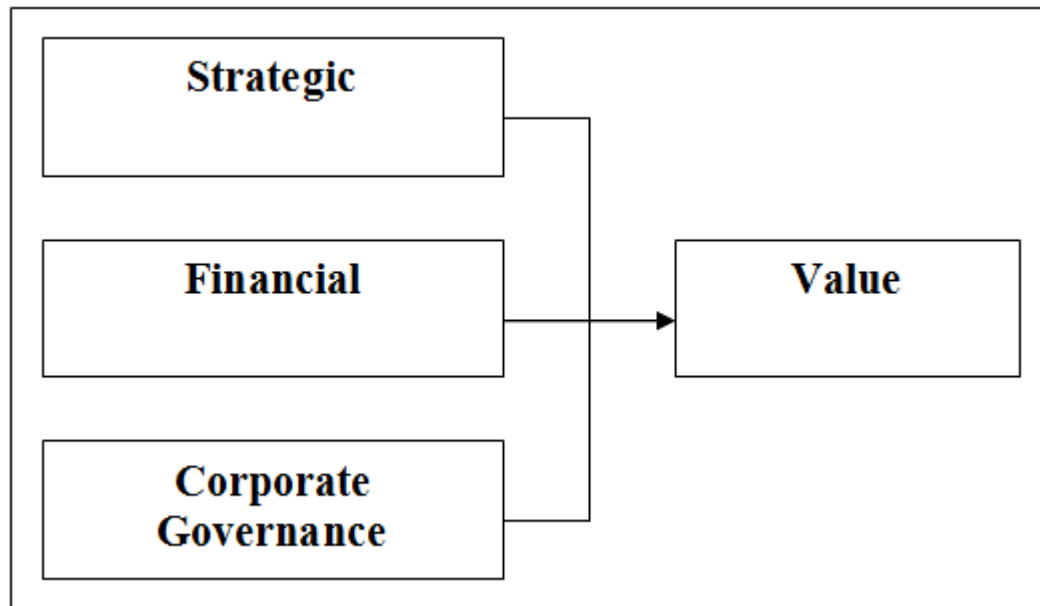
**Keywords:**Value Based Management, value, shareholder, shareholder value, performance measurement

### Introduction to Value Based Management

A value based management is an administrative approach which primarily focuses to maximize the wealth of shareholders. It also ensures the steadiness of organizational aim, the corporate strategies to achieve its goals, decision making and systems, operating procedures, analytical tools, organizational culture and performance measurement which are being used as guiding principles to maximize shareholder wealth (<http://www.lse.co.uk/financeglossary>).

There are four fundamental modules of value based management. It includes Valuation, Strategy, Finance and Corporate Governance. Valuation deals with corporate value and its key drivers. Strategy defines a specific correlation between the driver values and the business strategies. Financial module is associated with available value increasing policies. The last module i.e. corporate governance describes the managerial actions of top authorities such as performance measurement, incentive systems, and shareholder communication (Morin &

Jarrell, 2001). The following figure shows the framework of VBM and its fundamental modules.



*(Source: Morin & Jarrell, 2001)*

Ittner and Larcker (2001), suggest that VBM consists of following six steps:

- (a) Selecting of best internal objectives to increase the shareholder value not only for shareholders but also for workers
- (b) Selecting of appropriate organizational structure and formulating of consistent strategies to achieve the selected targets
- (c) Identification of value creating factors with respect to structure and strategies of the organization
- (d) Setting of targets, development of performance measuring tools, and practical action with respect to internal and external factors
- (e) Analyzing of successful action plans and evaluation of performance management
- (f) Reviewing of ongoing aims, strategies, and controlling procedures and their modification as desired

#### **Advantages of value based management**

The creation of value is the primary job of managers in huge organizations. The leading feature of VBM is its application to increase the shareholder value and enables the organization to compete at global level. A unique feature of VBM is that it brings a harmony between the concerns of managers and shareholders and stakeholders. It means it emphasizes

on value defined by stakeholders and primacy set by the administrative authorities. VBM creates a democratic culture in the organization which improves the communication between top and lower staff and formulation of corporate strategy. VBM has strong affiliation with outsourcing. Outsourcing is an important aspect of modern business scenario. In his famous book, Feenstra and Hanson (1996) define the term outsourcing as "the fragmentation of production into discrete activities which are then allocated across countries". All unprofitable business parts and activities are often outsourced to an organization that has adequate capability to take financial benefits from the same parts or activities. Thus promoters of VBM consider the outsourcing strategy as an attractive provision to top level management. Since VBM revolves around the value, therefore it sets the productive targets to the individuals. Further it not only merges the acquisitions but also balances the short term and long term corporate objectives to expand the organizational network (<http://www.valuebasedmanagement.com>). Nowadays even small and medium sized companies learned to know the advantages of VBM (Beck & Britzelmaier 2010).

Value Based Management manages the accountability at levels. Thus performance measurement is a noteworthy aspect of VBM. In other words VBM = Performance.

### **Limitations of value based management**

The opposite outcomes of Value Based Management are generally recognized as its disadvantages or limitations. The foremost purpose of VBM i.e. creating of value for shareholders is itself a drawback because there is a risk of losing the quality of business at the cost of price and performance. It results in mistreating of valuable customers. VBM is a comprehensive management culture changes function which is mostly applicable to large organizations, therefore time consumption is a serious issue with respect to its successful application. VBM does not rapidly respond to the new business opportunities in the corporate world. It has various supporting tools like value, performance management or balanced scorecards but they are too expensive and the use of metrics is very complex. That's why the extensive use of these supporting tools contains some reservations. It demands extensive role of top level management and proper training of employees that can be quite costly. Thus the ideal model of Value Based Management is yet to be invented and any best available model always contains drawbacks.

## **Components of Value Based Management**

### **Creating value**

From a broad literature review, it has been concluded that VBM has three major components (sometimes also known as elements of VBM).

The term "value" has diversified use in the corporate world. It is used as source of motivation, market capitalization, customer's satisfaction, employee performance, to increase the wealth of shareholders etc. In VBM, the use of this term is specifically to the increase of

shareholder wealth. Warren Buffet (1930) said “price is what you pay, value is what you get.” As far as the term “shareholder value” is concerned, it is considered as part of equity to measure the success of an organization.

The term “creating value” means the strategy to maximize the shareholders revenue. There are seven facets of a corporate strategy to achieve this target. It includes relationships, knowledge, leadership and communication, culture and values, reputation and trust, skills and competencies, and processes and systems (Rappaport, 2000). These facets are determined through an evaluation of internal and external factors that affect the overall strategy and progress of the organization. The strong strategic assets, resources, geographical location, innovative brands, company reputation or dexterity of an organization are the internal factors that highly affect in creation of value. There are some other uncontrollable factors called external factors which can also effect on creation of value. These external factors include political, environmental, social, technical, legal and economic factors. The internal factors are also known as strengths and weaknesses of organization to create shareholder value while external factors are also called opportunities and threats. The whole analysis of value creating factors consisting of strengths, weaknesses, opportunities and threats is called SWOT Analysis.

#### **Elements of value creation**

Economists have listed the following five key elements of value creation.

- (a) Planning horizon
- (b) Cash Flow or Profit
- (c) Amount of raised capital
- (d) Actual rate of return on capital
- (e) Required rate of return

#### **Types of value creation in mergers and acquisitions**

There are generally four types of value drivers used for mergers and acquisitions (Haspeslagh & Jemison, 1991). These include resource sharing i.e. the value is generating by the combination of organizations at operating level. The second value creation type is the communication of specific information, training or knowledge. Internal and external coordination and control is the third way of value creation for mergers and acquisitions. Lastly value can also be created by the combination of certain benefits e.g. borrowing capacity or increasing market power etc.

#### **Managing for value**

The creation of shareholder value is not the sole purpose of VBM rather it also includes the consistency of that value. Shareholder value can be created and increased through above mentioned parameters but the management of this value is totally a different aspect which

contains a large horizon. Generally it consists of governance, organizational culture, leadership, communication and change management.

### **Measuring value**

This component is basically a link between the organizational strategies and value creation. The value creation process is generally best measured by using an economic profit metric i.e. the generation of profit from given amount of total capital. Economic Value Added (EVA) and the Cash Value Added (CVA) are the most commonly used metrics introduced by Stern Stewart and Boston Consulting Group respectively (Martin & Petty, 2000). Both of these metrics and their value drivers can be used for performance management from top level managers to the lower staff (Black et al., 1998). "By accounting correctly for the economics of the business and by subtracting the cost of all resources required to produce revenues, including the cost of capital, EVA accurately captures the combined productivity of all factors of production in a single measure (Ehrbar, 1998). "Traditional performance metrics such as earnings per share (EPS), book value (BV), return on equity (ROE), return on assets (ROA) and return on invested capital (ROIC) do a poor job of capturing the three fundamental determinants of value creation: the amount, timing, and risk of the future cash flows of a company" (Morin and Jarrell, 2001), and the use of these facts and figures should be discarded when VBM is implemented (Kroll, 1997). There have been a number of studies about the use of VBM in practice; the latest overview is given in Britzelmaier (2010). For an overview of VBM metrics see for instance Britzelmaier (2009).

### **Implementation of Value Based Management**

In order to implement the value based management, above mentioned approaches begin from strategic planning which analyzes the long term trends, periodic economic changes, market competitors and effective managerial applications and some other related resources. It further requires dedicated involvement of top order management, and necessary training programs for the employees. In implementing process, it also considers the other stakeholders like community, customers, employees etc. Cyclic reviews show the way to revise the basic strategies and change the operations with respect to new strategy.

The philosophy of VBM is difficult to implement because basically it requires a distinct mindset. Each individual is driven by profits, bonuses are based on earnings, and performance measurements are associated with accounting returns. In such environment, it is not easy to make the whole organization dedicated for the creation of value. Generally the implementation of VBM requires the following steps (Weaver, 2003).

#### **Implementation from the top**

The whole administrative body is the driving force to implement value based management. It includes Chief Executive Officer, board of directors or governors, top and middle level



management, and other key staff. It is important because each manager performs his duties under different set of rules and regulations.

#### **Dedicated cross functional team**

VBM has a feature that it splits up the whole organization into small branches or division; therefore it must be implemented by a cross-functional group.

This dedicated group of personnel is that kind of vehicle which is used to carry out the transformation of traditional management to the value based management. This group of managers should be highly competent in day to day dealing and communication. The team must have the following goals (Ruth & Keith, 2008).

- (a) Directing the implementation of VBM
- (b) Open communication about VBM
- (c) Organizing and manipulating the gradual implementation of VBM around different divisions of the organization
- (d) Playing a vital role between the staff and the executive body
- (e) Resolving the priority issues i.e. what is the demand of higher authorities and what is possible under available resources
- (f) Conducting of meetings to familiarize each individual with respect to VBM
- (g) Arranging necessary training program for key staff to convince them about the significance of value based management
- (h) Modifying existing performance measurement tools or creating new standards of performance management which suit best to the value based management e. g. instead of profit, focusing on cash
- (i) Removing the minor problems between top level management and operational levels

#### **Value oriented reward**

The incentives to key staff must be correlated with their performance in creation of value. Conventional incentive processes which are associated with money should be modified. An important point is that rewards must be given on the basis of existing standards e.g. the forecast of future value is a very subjective incentive approach. In fact, the process of creation of value takes a long time; therefore the best approach is to connect the growing measures with the value. It is better to estimate the incentive measures at the start of each financial year while managers should have real time data about the value and cost of capital. This will increase the objectivity in the organization. The value of the capital and the cost of capital must be clearly communicated to each manager.

Establishing the mindset of the employees is a difficult task. It is one of the difficult aspects of value based management. A lot depends on the manager's personal traits that how does he

convince the staff to work harder for the increase of organizational value. He can stimulate the workers by informing them that with the growth of organization's wealth, not only the shareholders will get benefits but also the workers too. Managers should apply different motivational theories to trigger off the employees for the basic aim of the corporation (Stewart, 1991).

### **Benchmarking value creation**

Against the competition, value based management needs the benchmarking value creation. VBM should be linked with the basic aim and strategy of the organization as well as the standard operating procedure and decision making processes. It is the responsibility of managers to differentiate the good capital and bad capital. If capital is generating higher than the cost then it is called good capital and in case of vice versa, a bad capital (Chen & Dodd, 1998).

### **Performance measurement**

In order to determine the organizational and employee's performance through VBM approach, it is necessary for the managers to acquire information about it. Generally the main purpose of the measure is to check and enhance the individuals and collective performance. The performance measure normally considers the evaluation, controlling, budgeting, motivation, promotion, learning and improving aspects of the organization with respect to personnel, strategies, process and systems (Behn, 2003).

### **How does VBM measure?**

Managers of value based organizations gather the information from different sources to measure the performance of its staff and organizational standards. These are personal observation, statistical reports, oral reports, and written reports. Each has particular strengths and weakness. However, a combination of them generally increases the probability of receiving reliable information.

### **What does VBM measure?**

What does VBM measure is probably more critical than how does VBM measure. The selection of the wrong criteria results in a serious disorientation. There are some control criteria in value based companies which are applicable to all managers. For example, since all managers, by definition, direct the activities of others, criteria such as employee satisfaction or turnover and absentee rates represent the measure of human performance. Additionally, most managers have budgets for their area of responsibility, thus keeping values within their budget might be a fairly common control measure.

The comparing approach determines the degree of variation between actual performance and the standard. Some variation in performance in all activities cannot be avoided. Therefore managers should determine the acceptable range of variation. Deviation in excess of this

range should become significant and receive the manager's attention. In this stage, managers must be particularly concerned with the size and direction of the variation.

### Measuring Tools

Numerous performance measuring tools are in vogue in the corporate industry. However, the most popular and widely used method that is connected with VBM is the Balanced Scorecard. Other popular performance measuring tools used in VBM include Six Sigma Approach, Baldrige, EFQM, and APIC. Since Balanced Scorecard is a strategic tool, therefore it mainly deals with four strategic perspectives. These four strategic perspectives along with their important generic measurements are listed below (Collins & Porras, 2002).

<i>Perspective</i>	<i>Generic Measurements</i>
<i>Financial</i>	(a) Goals: Survival, prosperity, success and growth (b) Measures: Revenue growth, cash flow, return on capital, economic value added, cost reduction, performance reliability
<i>Customer</i>	(a) Goals: Customer's satisfaction, profitability, retention, acquisition (b) Measures: Transaction cost ratios, key accounts, market share
<i>Internal Business Process</i>	(a) Goals: Core Competence, business procedures, critical technologies, key skills (b) Measures: How well the company recognizes the future trends, quality, cost, and time, warranty, repair and deficiencies
<i>Learning and Growth</i>	(a) Goals: Continuous improvement and development (b) Training, motivation and retention of human resource, critical information for front line employees, productivity of entrepreneurship

(Source: Kaplan & Norton, 1996)

The Balanced Scorecard is used as a strategic management system while Six Sigma is usually defined in terms of quality improvement within the organization (Antony, 2008). Practitioners of VBM use common best practices of both the Balanced Scorecards and the Six Sigma in design and deployment systems. Both of these systems require the support of top-level management, efforts of a devoted team to bring cultural change, aligned strategy, implementation of improved projects, and the combination of top to bottom and bottom to top development. The practitioners of Six Sigma often implement the Balanced Scorecards to develop appropriate performance metrics.

The Baldrige Award, European Foundation for Quality Management (EFQM) and Army Performance Improvement Criteria (APIC) are some more examples of performance management. Generally these performance tools are applied successfully in a particular timeframe. Since VBM requires a long time to be implemented forcefully, therefore these tools do not best suit to it. On the opposite, Balanced Scorecard revolves around the assessment data to find out where the improvements and breakthroughs areas in performance are required so that the strategies can be re-analyzed to meet the required results. It means the

Balanced Scorecard includes more than assessment, and thus is more forceful performance measuring system in VBM than the Baldrige, EFQM, and APIC.

### **Managerial Actions**

The next step of performance measuring in VBM is the managerial actions. Managers can opt two courses of actions. They can correct the actual performance or they can revise the standards. If the source of variation is deficient performance, manager should take corrective action. Examples of corrective actions are changes in strategy, structure, determining of value drivers etc. Immediate corrective action corrects something right now and gets things back on track. Basic corrective action asks the probing questions, like, "How and why performance deviated." After determining the root causes of deficient performance, the basic corrective action proceeds to correct the source of deviation. Managers of value based corporations tend to rationalize the deviation and spend their managerial time to permanently correct significant variances between standard and actual performance.

If an employee or section falls significantly short of reaching its target, the natural tendency is to shift the blame for the variance to the standard. But, value based managers keep in mind that if they or their personnel do not meet the standard, they would not straightaway revise the standard itself. They would check their performance first and would take the necessary actions to resolve the matter (Harung, 1999).

### **Success factors for implementation**

In this section we discuss some selected works that are concerned with the implementation of Value Based Management. Since the issues raised in these works often differ considerably from each other, it seems reasonable to us to provide some categorisation and structure. An essential difference between the works that are considered consists in the fact that some works are based exclusively on theoretical considerations. Others, meanwhile, are based on empirical data.

In what follows, there will be extensive presentations of works in which the factors of success for implementation are treated in an explicit and detailed manner.

#### **Paper by Lewis (1994)**

Lewis is occupied with the question of how VBM can best be established at a company. Specifically, he introduces the portfolio value audit and two approaches to developing the existing performance measurement system.

The goal of a portfolio value audit, which should only be performed irregularly and as events dictate, consists of the identification of a company's value-creating areas, as well as of the areas in which the greatest potential future value can be attained. The analysis is carried out over multiple steps and begins with a meeting of the project team, which consists of representatives from strategic planning, finance, accounting and controlling. This meeting

will determine the level of detail for the analysis, the resulting data requirements and the time period. It should be born in mind that the level of detail also depends on the amount of data available. Following this, it will consider in succession: the total company value, reflecting key performance indicators; amounts such as the CFROI; the growth and value of the company; and the individual strategic business units. These amounts are then broken down via several intermediate steps into their operation value drivers. For example, the gross margin can be further analysed into its component selling price and the costs per unit. The portfolio value audit ends with the communication of the analysis results.

The only way to create a permanent anchoring for a value based company orientation, in Lewis's opinion, is to construct a performance evaluation system. Particular attention should be paid to the development of alternative plans, employee training, performance evaluation and incentive systems. In the first step, the planning and reporting systems should be modified so as to provide the corresponding value-relevant information. This is the only way to produce a value based arrangement for control processes such as, for example, strategic planning and incentive systems. The adjustment to a new incentive system should begin with taking stock of the previous system, as well as analysing the behaviour it has led to. This is followed by a detailed discussion of the methodology of the shareholder value approach, in order to build awareness of the value based orientation and to overcome any opposition. This discussion must ultimately come from top management, since this is the only way a value based arrangement of the control processes can succeed. A clear communication concept and early employee participation help to overcome resistance. After finishing the discussion, the performance evaluation system can be gradually implemented into the company. Modification of the incentive system is especially important for implementation success, since value based controlling without the combination of internal incentives and key value data will not provide a durable contribution toward improving shareholder value (Lewis, 1994).

#### **Paper by Rappaport (1998)**

Rappaport describes a general implementation process, with a total of three steps. According to Rappaport, implicitly assuming that the initial implementation does not come solely from top management, the first step consists of winning the support of this level of the hierarchy. This can happen, for example, by selecting a favourable starting point to implement changes, such as after an unsatisfactory performance. Demonstrating the advantages of VBM or declaring dissatisfaction with the present processes can also provide support. If the initiator is not successful in persuading top management, implementation of a value based management concept should be abandoned for the moment, since all efforts would be judged inevitable failures from the beginning. This agrees with Lewis' conclusion that without the support of top management, a value based approach to the control process can not be successful.

The second step is the introduction of an appropriate approach. This includes two essential elements: the first element consists of performing analyses which illustrate the relevance and usefulness of value based management. These analyses -- as in Lewis -- begin with the performance of a so-called value audit, which determines the value of individual company units, and estimates the possibility for their increases in value. This is followed by comparison of these management expectations with those of the capital market, which is expressed by the company's share price. Then, the essential value drivers are identified from the perspective of the company. Finally, there is an assessment of the potential for an increase in value using alternative strategies.

The second element is to implement comprehensive training. This element ultimately pursues four goals: to promote the acceptance of an adequate approach, the basic concept of value based management should be conveyed. In addition, it attempts to improve the technical skills of those employees who will be responsible for performing value analyses in the future. Moreover, it should demonstrate to the managers the extent to which their decision-making will change as a result of a value based system. Finally, the training program should call the attention of the managers to future changes in planning, performance measurement and in the compensation system. In pursuit of this goal, the benefits of the shareholder value approach have to be brought up in the individual seminars. Furthermore, the participants should be asked to find ways they can begin applying the system immediately. In addition, the seminars should be tailored toward the skills and competence areas of the participants.

The third and last step of the company process is the promotion of the value based system. This should be achieved through management processes such as strategic planning, yearly budgeting, performance measurement, variable compensation, and internal as well as external communication with investors and other audiences. The areas of performance measurement and variable compensation are of critical importance (Rappaport, 1998).

#### **Paper by Morin/Jarrell (2001)**

In their article on the implementation of VBM, Morin and Jarrell address six critical success factors.

The first success factor they name is top management's strong support for value based management. Under the leadership of the chairman of the board, the top manager must actively participate in the use of an appropriate concept. Special importance is attached to central business processes such as strategic planning, resource allocation, the compensation system, the internal reporting system and communication with investors. This corresponds with the findings of Lewis and Rappaport regarding the importance of top management.

Implementing training courses is the second success factor. The authors argue that the managers have to understand the basic evaluation concepts, the relationship between value increases and competitive strategy, and the individual possibilities they have for influencing

shareholder value, in order to make optimal decisions in terms of value. The relevant knowledge should be communicated in small groups, with the participation of senior management and discussion of internal case studies. Training of employees at all levels of hierarchy also seems essential to the authors.

A value based design for strategic planning is viewed as the third success factor. Special attention must be paid to the development of realistic cash flow prognoses. In addition, employees from different areas and levels of hierarchy should be involved in the strategic planning process.

The fourth success factor is considered to be value based compensation, which represents an indispensable prerequisite for successful implementation according to Morin and Jarrell, and in Lewis' opinion as well. There are two central problems to solve in this regard: first, a reliable and valid measure must be used for long-term value creation. Second, this measure must be connected with incentives. To solve these problems, it is suggested that competitive, value based goals be used as the basis of incentives for the next several years. Which performance measurement is used for which employee group depends on the hierarchical position of the employees.

The simplicity of conceptualisation and communication with investors represent the fifth and sixth success factors. In the interest of simplicity, consistently defined performance measurements must be used company-wide. Communication with investors should be carried out by top management and by the company's various branches, and should include the company's vision as well as the long-term business model. Moreover, the expectations that shareholders are given by the current share price should be analysed, and compared with management's expectations for the future development of the company (Morin & Jarrell, 2001).

#### **Paper by Koller/Goedhart/Wessel(2005)**

According to Koller, Goedhart and Wessel, an unsatisfactory increase in value essentially results from too strong a focus on short-term performance, as well as a disregard for performance management that is based on performance measurement. Accordingly, more attention must be paid to the value based design of the performance management system, if both errors are to be avoided. Specifically, the authors call for five starting points.

The first is to make sure that employees at all levels of hierarchy understand the value based concept, know the importance of the shareholder value approach and make decisions with consideration for their impact on the market value of equity. The behaviour of top management significantly influences the consistency of the value based system. Furthermore, it is recommended that operational management also participate in forming a value based performance management system.

The second approach is to look more clearly at a company's essential value drivers. Here too, the involvement of employees from all levels of hierarchy is important.

Further, the goal-setting process must be made more effective. Concerning this matter, Koller, Goedhart and Wessel argue for a combination of top-down and bottom-up elements, in order to bring the goals of various company hierarchy levels into accord.

Financial reports which are developed in connection with controls should be supplemented with information on the development of central value drivers. This implies that the controls should be tailored to the lower hierarchical organisational units and their respective fields of activity. Furthermore, the focus should be on solving problems that arise rather than on searching for the persons responsible.

The authors consider the final starting point for a value based design of the performance management system to be the evaluation and compensation system. In order to connect performance and compensation, there must be an adjustment of the effects of general and/or branch-specific factors that are not influenced by the employees. Furthermore, the connection between employee performance and compensation should even extend to the period after they have left the company. Long-term performance measurement should be granted greater importance for determining compensation than short-term measurements (Koller et. al 2005).

#### **Paper by Martin/Petty (2000)**

Martin and Petty conducted a case study. The aim of the case study was to identify companies who had successfully introduced VBM, as well as to document their use of the shareholder value approach. To this end, they first sent questionnaires to more than 90 companies who represented potential objects of research. In the next step, the companies who had responded to the surveys were interviewed by telephone about the extent of their experience with value based management. Furthermore, these conversations assessed the willingness on the part of the companies to participate in the next phases of the study. On the basis of this information, five companies were chosen, each of which employed a different concept. The management of these companies was asked to complete a comprehensive questionnaire concerning the implementation and introduction process of their value based management concepts. Finally, the researches visited the headquarters of each company to collect more information about the areas that interested them.

A comparison of the companies led to the conclusion that having the support of top management is of decisive importance for the success of each approach to value based management. In addition, it shows that the adoption of a value based approach is always preceded by a specific event, such as losses in earnings or a personnel change in top management. The main reason for its adoption is the desire to motivate the workers to behave in line with the interests of the company's owner. For achieving this goal, it is of essential importance to integrate a value based orientation in the company's compensation system, and to conduct training programs. Another common theme among the five companies is that they



did not adopt the approaches sold by management consultancy companies, but rather found an approach that was suited to their company's particular situation. Finally, there was a consensus that the approach should be as simple as possible, so that the employees could understand it and implement it. Martin and Petty's empirical results essentially agree with the theoretical insights of the previously discussed works (Martin & Petty, 2000).

#### **Paper by Haspeslagh/Noda/Boulos (2001)**

In 2001, the joint presentation of Philippe Haspeslagh, Tomo Noda, and Fares Boulos was published by Harvard Business Review titled "Managing for Value: It's not just about the numbers". The approach of these writers is different from their predecessors. These writers emphasized that instead of financial orientations, value based management can be applied successfully to bring cultural changes in organizations. On the basis of a comprehensive statistical analysis of 271 companies, the authors concluded that only four value based management approaches i.e. explicit commitment to shareholder value, incentive compensation, value creating decisions through empower business units, and keeping of simple VBM requirements were found which formed a high correlation with success. They further concluded the theory that overcoming the resistance to cultural change has been considered as the most challenging task of the value based management (Haspeslagh, Noda, & Boulos, 2001). According to these authors VBM does not provide solution to each and every type of problem.

#### **Summary**

The various aspects that were raised in the papers we have been considering in connection with implementing VBM can be basically organised as follows:

In our opinion it seems reasonable to bring together the categories of 'Training', Participation of the employees, 'Internal communication' and 'Support of top management' into a single success factor, 'Assuring acceptance'. The other categories represent very different facets of business, and cannot therefore be compressed into one or more success factors. Consequently, each of these categories corresponds to a success factor. The organisational structure creates better or worse conditions for the implementation of a value based controlling system, thereby determining the application possibilities. Assurance of acceptance and personnel management, however, are crucial for determining how well such a system meets its potential. Consequently, these three factors determine the basic conditions within the company for the implementation of value based controlling.

#### **Conclusion**

Value based management is a quest in the form of prosperity and profit for both the employees and of course for the shareholders. Although, the previous research provides the evidence that companies lead under valuable human values provide high standards of life to its shareholders and employees, even then still there is comparatively less number of value

based organizations exist in the competitive market. The main reason behind it is that, except USA and some other developed countries, adequate attention has not been put toward value based management.

Article	Training	Participation of the employees	Internal communication	Support of top management	Goal system	Planning system	Control system	Information system	Compensation system	External communication
<i>Lewis (1994)</i>	x	x	x	x	x	x		x	x	
<i>Rappaport (1998)</i>	x		x	x	x	x			x	x
<i>Morin/Jarrell (2001)</i>	x			x		x			x	x
<i>Koller/Goedhart/Wessels (2005)</i>	x	x		x	x		x	x	x	x
<i>Martin/Petty (2000)</i>	x			x	x				x	
<i>Haspeslagh/Noda/Boulos (2001)</i>	x			x					x	

Shareholders and top order management definitely get more benefits by the implementation of shareholder value theory and economists also logically assert that when the business activities make best use of the shareholder value, then employees, customers, contractors and distributors will be more affluent. In order to run the organizations under value based management, shareholders have to depend a lot on the top level managers. But it has been observed that the managers who control the allocation of corporate assets and returns cannot create value for shareholders. In this situation, the free cash flow should be distributed to the owners who can then dedicate these assets to some other standby use.

Value based management deals with numerous performance measures which are implemented by top level management based on reliable information. Thus, a comprehensive VBM system comprises of strategic planning, establishing of value drivers, financial measures, analysis of internal and external factors, and the consistent supervision of skilled, efficient and active top level management.

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## THE NEW ECOMMERCE FREELOADERS: EFFECTS ON CONSUMER BEHAVIOR AND DECISION MAKING

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### Abstract

Given the wide range of influences on purchasing behavior it is clear the Internet is shaping a new economy. Just what will emerge is, however, is uncertain. The purpose of this research was to determine where individuals from four nations (Portugal, Korea, Turkey and USA) are turning in order to obtain product information as well as where individuals buy. The results of the study indicate that differences exist among nations in the amount of time that is spent on computers and the manner in which consumers seek out information and locations for product purchase. This finding has implications for organizers of web information (such as search engine companies), companies and stores as well as advertisers. While Portuguese and USA consumers continued to rate stores as the primary information locations for items costing less than \$500 search engines were listed second. In Korea and Turkey search engines were primary with store and friend references second (by country). For products over \$500 stores remained primary with company web sites listed as the second information source. Stores remained the purchase location of choice in all nations studied. It was interesting that Turkey rated higher (for both price levels) in use of company websites than the other nations which would not have been intuitive. Internet age consumers have come to expect a ready flow of relatively free product and service information supplied by firms, independent writers and knowledgeable consumers themselves through blogs, websites. Since many high end retail firms used the dissemination of product information as a primary marketing advantage if consumers no longer need to rely on them for advice a significant question will these firms be able to attract a sufficient consumer base to maintain their value added pricing model?" The answer to this question is certainly more than just of academic interest as thousands of firms worldwide stand to be affected. It appears that while the introduction of the low cost discount companies provided the cover for the coffin for many value added companies the internet has the potential to nail that cover shut.

**Keywords:** Ecommerce, Freeloaders, Consumer behavior; internet buying

### Introduction

Prior to the advent of the internet consumers frequently sought out value added companies to obtain information about high end products. During that time frame a few information

companies such as Consumer Reports provided independent information however most consumers turned to retail companies to provide valuable information about products and services as well as those locations to purchase these products. These firms were generally higher cost as there was a firm cost of having employees who were knowledgeable in product lines. The advent of lower cost companies such as Best Buy or Walmart often were the benefactors of the value added firms as some consumers obtained information from the value added locations and then turned to lower price firms to purchase. These “freeloaders” as they came to be known, utilized the expertise of the higher cost company but failed to “pay” for the information obtained through item purchase. The internet has provided consumers both a location for purchasing goods and services as well as a source of independent information. Both come at only a modest opportunity search cost in terms of time.

Internet age consumers have come to expect a ready flow of product and service information supplied by firms, independent writers and knowledgeable consumers through blogs, websites,. While some publications continue to maintain product recommendations and reviews one might expect their long term survival to be in question as quality independent information is readily available through Blogs and facebook , twitter, websites or individually posted product evaluations. Perhaps the freeloader of yesterday is simply the net savvy and informed consumer of today. It would seem that the days of the store “freeloader” could be ending with consumers able to turn to numerous locations for free and quality product information. Since many high end retail firms used the dissemination of product information as a primary marketing advantage if consumers no longer need to rely on them for advice a significant question is, will these firms be able to attract a sufficient consumer base to maintain their value added pricing model? The answer to this question is certainly more than just of academic interest as thousands of firms worldwide stand to be affected.

When considering the purchase process elements Kotler and Armstrong suggested a Buyer Decision Process Model consisting of series of steps which are: need recognition, information search, alternatives evaluation, purchase decision, and post purchase decision (Chou, 2005). Chou considers online shoppers different from traditional consumers as they tend to be more active and technology oriented. The downside of online shopping is that consumers do not have an ability to touch, feel, or see real products to evaluate quality, and possible inaccuracies concerning the products being considered. Here such firms as the US Internet retailer zappos have excelled offering unexpected customer services and friendly exchanges in the extremely difficult women’s shoe business online. Research indicates that search engines, online shopping malls, and auction websites serve as information search channels and may facilitate consumers making online purchase decisions. As to receptivity to online shopping, the strongest predictors from highest to lowest were: satisfaction, online shopping malls, convenience, security, price, refund, customized information, discount, free trials,

brand, search engines, internet advertisements, auction websites, and promotion (Chou, 2005).

Online Consumer Information Search (OCIS) research has noted that internal cognitive processing and motivational factors may have a greater impact upon the amount of online search than external market-driven factors such as cost of search. (Susan & Phillip, 2009). The results showing gender plays an important role in influencing attitude towards online shopping behavior is consistent to previous studies that found significant influence of gender on The results in Research indicates that those who are between 30 to 39 years old do more online shopping compared to those between 20 to 29 years old and those over 40 (Gupta et al., 1995; Haque et al., 2007). This finding is consistent to Sulaiman et al. (2008) that found younger generation would likely to do online shopping more because of their knowledge in computer technology as opposed to the older generation. (Hashim, 2009)

Consumers have a wide range of search interests and this appears to have had some change between 2006 and 2009 (Table 1). One study found that individuals often seek information on companies they are considering or locate retailers online but are less likely to look for product information (Mary et al., 2003). Sherman (2005) however, found that most people (80%) were comparing prices rather than looking for a local retailer.

TYPES OF INFORMATION CONSUMERS SOUGHT ONLINE		
	2009	2006
<i>Looked for product information</i>	56%*	62%
<i>Compared prices</i>	54	55
<i>Researched companies you were considering</i>	51**	46
<i>Requested a price or quote</i>	33	37
<i>Checked company ratings or financial stability</i>	31	29
<i>Looked for information specifically for people my age, gender, or lifestyle</i>	30	NA
<i>Used online calculators or worksheets to determine the type of product needed</i>	23	21
<i>Used online calculators or worksheets to determine the amount to buy</i>	20	23
<i>Located a toll-free number to call the company</i>	16	NA
<i>Located an agent online</i>	12**	7
*Significantly different at the 95th percent confidence interval		
**Significantly different at the 90th percent confidence interval NA = Not asked in 2006 Source:LMRA2009		

Table 1

Convenience was the most common reason to buy online in 2009 and 2006, and price remains a reason for 1 in 2 online buyers (Table 2). Half of those who purchased online in

2009 were comfortable with the Web site which was an increase from the 35 percent in 2006. This may mean that companies are doing a better job of creating a positive experience online (Mary et.al., 2003).

<i>ALL REASONS TO BUY ONLINE</i>		
<i>Of Consumers Who Purchased Online</i>		
	<i>2009</i>	<i>2006</i>
<i>Convenience</i>	<i>63%</i>	<i>64%</i>
<i>I was comfortable with the Web site</i>	<i>51*</i>	<i>35</i>
<i>Better price</i>	<i>50</i>	<i>59</i>
<i>Knew the product I wanted</i>	<i>38*</i>	<i>24</i>
<i>The company had good financial ratings</i>	<i>36*</i>	<i>20</i>
<i>The company gave me a chance to talk with an agent by phone</i>	<i>29*</i>	<i>10</i>
<i>Already knew the company</i>	<i>28*</i>	<i>14</i>
<i>*Significantly different at the 90th percent confidence interval</i>		

Table 2

One significant channel of information that customers use is social networking media and also friendship in the social networking. The “friendship” factor in the social networking has contributed in a significant sector where the potential customers obtained information or used review of products, services, and goods. Social networks produce a powerful viral marketing effect as “friends” use them to tell one another about things they have discovered. Marketers have long known that such recommendations are very important in purchase decisions and the use of technology has accelerated the importance of social nets. Through technology advances individuals on social sites can have their concepts, recommendations and ideas sent to another “friend” through automatic processes. The Economist reported that consumers are most swayed by product reviews written by other consumers or friends. Passing on the recommendations as contributed to the importance of wave of bottom-up information passing (The Economist, 2010).

Internet price comparison sites offer consumers high level of information at low cost, making them some of the most competitive markets in retail setting (Anderson, 2010). Anderson states “Internet price comparison sites are gatekeepers that facilitate transactions between online retailers and consumers. Consumer value is generated by the reduced search costs of using a price comparison site as compare to manually searching each Internet site, or so called “shoe-leather” cost of physically searching stores for the best price.” (Anderson, p58). Reports of differences in price alternatives have suggested that an average difference of 16% between the lowest price and the average price for electronic goods and in aggregate, price comparison sites generate more than 55 million unique users each month with popularity has led to growth rates of about 50% per year” (Anderson, 2010).



Extending social networks influence is an interesting form of advertising termed Word-of-Mouth advertising (WOM). The importance that consumer give to other's opinions and their desire to pass on this information as become an important information source (Hong, 2010). Consumers desire to reduce the risk has in many cases focused the to rely on the information from previous users of the product. Hong (2010) has identified five different characteristics useful in distinguishing electronic WOM.

1. Endless boundary: eWOM communicators can reach far beyond geographical limitations, because consumers from all over the world can access internet.
2. Written sphere: unlike traditional WOM which consists of spoken word exchange, electronic WOM is written.
3. Communication with anonymous people: traditional WOM occurs with relatives and friends, and eWOM gives an opportunity to communicate with other people
4. Directness: eWOM a seller to effectively and directly initiate and broadcast consumer reviews with the help of advancement in technologies.
5. Volume: information available online is much more voluminous in quantity compared to that of traditional WOM.

Given the wide range of influences on purchasing behavior it is clear the Internet is shaping a new economy. Just what will emerge is, however, is uncertain. What is certain is that the future is not "business as usual". The purpose of this research was to determine where individuals are turning to obtain product information and where individuals buy. It is suggested that an shift is occurring that may have important affects on retail activities. Should individuals be shifting toward the Internet for sources of information the result could be a down turn in sales in high end stores whose previous marketing strategies were directed toward attracting sales as a result of informed store staff. Some freeloader activity did occur when a price sensitive market group would secure information from high end store to then turn to discount locations for purchase. These "freeloaders" were factored into the business model and did not account for considerable sales loss. If a significant population were to utilize online information sources the value added pricing of up scale companies resulting from in store information would be lost. This has significant ramifications for the future of retailing at the high end. Another consequence of the Internet is online purchasing. If individuals turn to the Internet for information but purchase in stores then retailing, at least at the discount level, is secure. If, however, individuals turn to the Internet for both information and sales one might question the security and future of the "brick and Mortar."

## Methods

Subjects. Individuals from Korea, Portugal, Turkey and the USA were administered an online questionnaire using "surveymonkey.com." Each nation's survey was translated to their native language. Emails were sent out to graduate business classes in evening part time

programs. This population was used to represent individuals that were working and in a broad age range. Sex was not ascertained as it was felt the information would be only marginally useful and could serve as a deterrent to response.

**Questionnaire.** The questionnaire was purposefully brief with only six questions (Appendix 1). The questionnaire is provided in the appendix. Questions related to age group, use of computers in hours, how product information is obtained (for two different price level goods) and where purchases for different price level goods are made.

## Data and Results

**Age and Hours of Use.** Four nations were involved in the study (Korea, Portugal, Turkey and USA). Over 90% of the respondents were between the ages of 16 and 50. As Turkish respondents were older than the other nation's respondents (Table 1). Over 90% of the respondents without Turkish data (59%) were between 16 and 35. Over ninety percent of the Turkish population were between 22 and 50. When considering the amount of time respondents spent on the computer there was a difference among the nations. One hundred percent of the American population computer use was between three and five hours a day. This was similar for the Korean group which was 90%. Mexican's and Turkish populations were much more diverse in the amount of time spend daily on a computer. Their time was about divided between the ranges of 3-5, 5-8, and over 8 hours a day.

### Q1. What is your age group?

	USA	USA	KOREA	KOREA	PORTUGAL	PORTUGAL	TURKEY	TURKEY
	Response		Response		Response		Response	
Answer Options	Count		Response Count		Response Count		Response Count	
0-15	2	2%	3	2%	0	0%	9	4%
16-21	80	67%	10	8%	44	31%	5	2%
22-35	30	25%	80	65%	37	26%	129	59%
36-50	8	7%	30	24%	50	35%	74	34%
over 50	0	0%	0	0%	13	9%	2	1%
	120	100%	123	100%	144	100%	219	100%

### Q2. How many hours do you spend on computer in a day ?

	USA	USA	KOREA	KOREA	PORTUGAL	PORTUGAL	TURKEY	TURKEY
	Response		Response		Response		Response	
Answer Options	Count		Response Count		Response Count		Response Count	
0	0	0%	0	0%	0	0%	0	0%
0-1	0	0%	8	7%	8	6%	15	7%
1-3	0	0%	0	0%	31	22%	49	22%
3-5	120	100%	90	73%	55	38%	38	17%
5-8	0	0%	10	8%	30	21%	64	29%
over 8	0	0%	15	12%	20	14%	53	24%
	120	100%	123	100%	144	100%	219	100%

Table 1. Responses relating to age and length of daily computer use

Source of Information. Individuals tended to use different search patterns when products below and above five hundred dollars were considered. While for products above \$500 the use of stores and company websites were listed as the first and second sources of information (Table 2). There was a difference among nations as to the use of search engines and friends as a means of information (Figure 1). Korea and Turkey ranked friends as a source of information last while Portugal and USA ranked search engines last. For less expensive items between 50 and 500 dollars there was a difference among nations in terms of information source rankings. No statistical difference was noted however when individual nations are observed for ranking placement a difference exists. Korea and Turkey placed search engines first while Portugal and USA selected stores. The second ranking was more diverse with Korea turning to stores, Portugal and USA to search engines and Turkey to friends. The same diversity was noted at the third ranking position with Korea and Portugal listing friends and Turkey with the USA listing company websites. Last place found Korea and Portugal naming company websites, Turkey naming stores and USA friends.

Q3. Where do you normally go to receive information about a product which is in 50-500\$ price range ? (Response = often)

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Country * below500infochannel	717	100.0%	0	.0%	717	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	23.219 <sup>a</sup>	9	.006
Likelihood Ratio	25.452	9	.003
N of Valid Cases	717		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 25.21.

Table 2. Source of information and data analysis

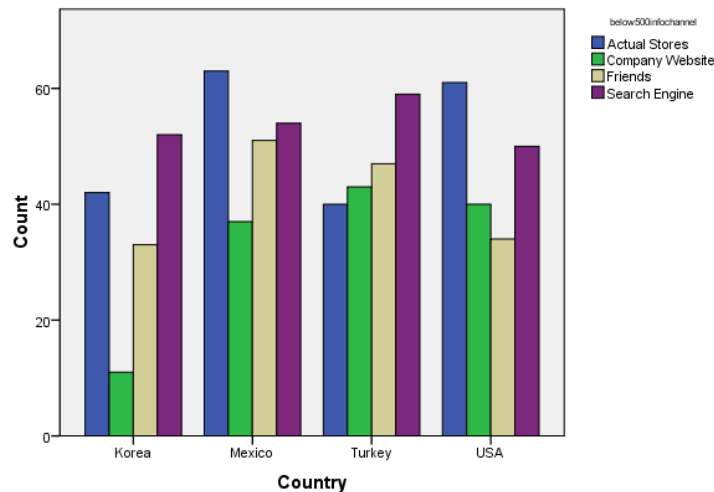


Figure 1. Bar chart of where individuals go to receive information in \$50 to \$500 range

Location of Purchase. Statistical differences existed among nations concerning where individuals purchased items priced both the below and above \$500 level (Table 1). For categories “rarely” and “sometimes” there was a wide range of responses across all categories of location possibilities (Figure 2, 3 and 4). When considering the response “often” all nations for both price levels rated stores the primary location for purchases over company websites as second. Among the different nations Korea and Turkey rated company websites higher in use than Portugal or the USA. Turkey was statistically the highest user in both price categories of company websites.

#### Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Country * over 500 infochannel	675	100.0%	0	.0%	675	100.0%

#### Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	21.772 <sup>a</sup>	9	.010
Likelihood Ratio	22.478	9	.007
N of Valid Cases	675		

Table 1. Location of purchase for items over \$500

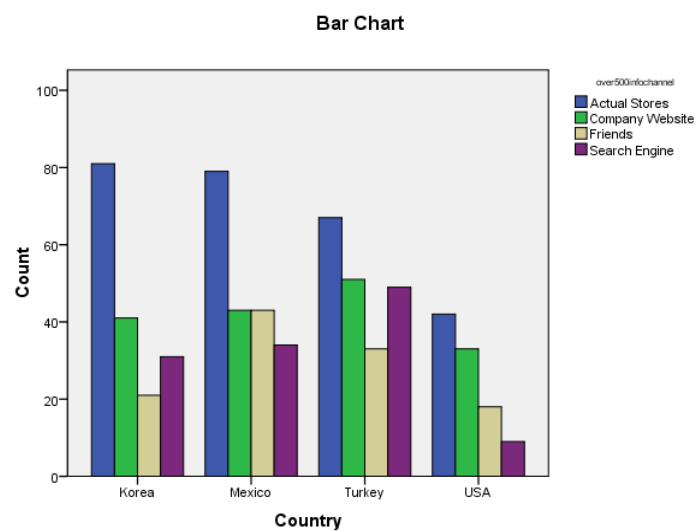


Figure 2. Bar chart of where individuals go to receive information products over \$500

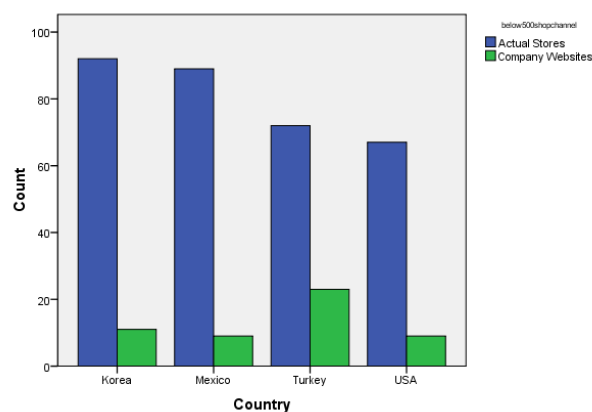


Figure 3. Where do you buy a product which costs over 500\$ ? (Response = often)

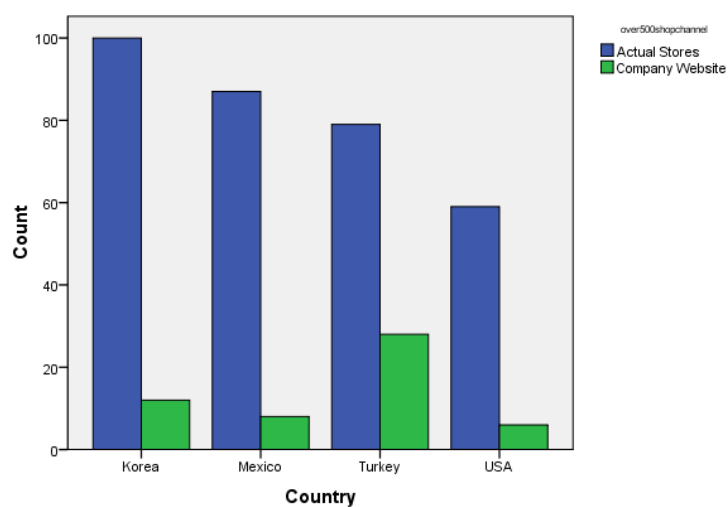


Figure 4. Where do you buy a product which costs over 500\$ ? (Response = often)

## Conclusions

The research purpose was to determine where individuals obtain product information and where individuals buy. It was interesting the amount of time respondents spent on the computer varied by nation. All the American population computer use was between three and five hours a day which was similar for the Korean group. Mexican's and Turkish populations were much more diverse in the amount of time spend daily on a computer and their time was divided between the ranges of 3-5, 5-8, and over 8 hours a day.

The results of the study indicate that differences also exist among nations in the manner in which they seek out information and locations for product purchase. This finding has implications for organizers of web information (such as search engine companies), companies and stores as well as advertisers. There is a clear shift from stores in some nations as a major source of product information. While Portuguese and USA consumers continued to rate stores as the primary information locations for items costing less than \$500 search engines were listed second. In Korea and Turkey search engines were primary with store and friend references second (by country). For products over \$500 stores remained primary with company web sites listed as the second information source. It is suggested that a shift is occurring that may have important affects of retail activities. Should individuals be shifting toward the Internet for sources of information the result could be a down turn in sales in high end stores. Previously these firm's marketing strategies were directed on attracting sales as a result of informed in store staff. Some freeloader activity did occur when a price sensitive market group would secure information from high end store to then turn to discount locations for purchase. If a significant population were to utilize online information sources the value added pricing of up scale companies resulting from in store information would be lost. This has significant ramifications for the future of retailing at the high end. Clearly the influence of stores in providing information is decreasing and should result in shifts in company that have based their strategy on a value added informational model. The effect of this shift has already resulted in bankruptcies of several major chains.

Stores remained the purchase location of choice in all nations studied. It was interesting that Turkey rated higher (for both price levels) in use of company websites than the other nations which would not have been intuitive. This finding points to the always importance of data over preconceptions when considering technology advances and who is making the most use of them. Korea rated higher in website use than Portugal or the USA. Along with the Internet as a source of product information another consequence of the Internet is online purchasing. If individuals turn to the Internet for information but purchase in stores then retailing, at least at the discount level, is secure. If, however, individuals turn to the Internet for both information and sales one might question the security and future of the "brick and Mortar."

During the 70s through the 90s shoppers often utilized the expertise of the higher cost company for product information but failed to “pay” for the information obtained through item purchase. These “freeloaders” used valued added stores for product information but purchased at lower priced discount stores. The internet has provided not only “freeloaders” but all consumers with a location for purchasing goods and services as well as a source of relatively free information. Internet age consumers have come to expect a ready flow of product and service information supplied by firms, independent writers and knowledgeable consumers themselves through blogs, websites,. While some publications continue to maintain product recommendations and reviews one might expect their long term survival to be in question. Since many high end retail firms used the dissemination of product information as a primary marketing advantage if consumers no longer need to rely on them for advice a significant question is, “will these firms be able to attract a sufficient consumer base to maintain their value added pricing model?” The answer to this question is certainly more than just of academic interest as thousands of firms worldwide stand to be affected. It appears that while the introduction of the low cost discount companies provided the cover for the coffin for many value added companies the internet has the potential to nail that cover shut.

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*Appendix 1: QUESTIONNAIRE – ANSWERED ONLINE SURVEY*

*Q1. What is your age group?*

*Answer Options*

*0-15*

*16-21*

*22-35*

*36-50*

*over 50*

*Q2. How many hours do you spend on computer in a day ?*

*Answer Options*

*0*

*0-1*

*1-3*

*3-5*

*5-8*

*over 8*

*Q3. Where do you normally go to receive information*



*about a product which is in 50-500\$ price range ?*

*Chat Groups and Discussion Boards*

*Product Ratings By Professionals (e.g magazines, consumer groups)*

*Product Ratings By Individuals (e.g Blogs, other web sites)*

*Search Engines(google, yahoo, bing etc.)*

*Company Websites*

*Reviews on the Major Retailer's Websites (Walmart, Best Buy etc.)*

*Actual Stores*

*Friends*

*TV, Magazines and Newspaper Advertisements*

*Other*

*Q4. Where do you buy a product which is 50-500\$ price range?*

*E-Malls (e.g Amazon)*

*Auction Type Websites (Ebay)*

*Company Websites*

*Search Engines (Google, Yahoo, Bing etc.)*

*Actual Stores*

*Other*

*Q5. Where do you normally go to receive information about a product which costs over 500\$ ?*

*Chat Groups and Discussion Boards*

*Product Ratings By Professionals (e.g magazines, consumer groups)*

*Product Ratings By Individuals (e.g Blogs, other web sites)*

*Search Engines(google, yahoo, bing etc.)*

*Company Websites*

*Reviews on the Major Retailer's Websites (Walmart, Best Buy etc.)*

*Actual Stores*

*Friends*

*TV, Magazines and Newspaper Advertisements*

*Other*

*Q6. Where do you buy a product which costs over 500\$ ?*

*E-Malls (e.g Amazon)*

*Auction Type Websites (Ebay)*

*Company Websites*

*Search Engines (Google, Yahoo, Bing etc.)*

*Actual Stores*

*Other*

## THE IMPACT OF CELEBRITY ENDORSEMENTS ON CONSUMER BRAND PREFERENCES IN INDIA

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### **Abstract**

Today 'Celebrity Endorsement' has attracted immense debate on whether it really contributes to the brand building process or whether it is just another lazy tool to make the brand more visible in the minds of the consumers. Although it has been observed that the presence of a well-known personality helps in solving the problem of over-communication that is becoming more prominent these days, there are few undesirable impacts of this practice on the brand. Firms invest huge amounts as advertising expenditure for hiring the right celebrity. However there lies uncertainty with respect to the returns that the company might be able to garner for the brand. The issue of matching the values of the celebrity with the brand values is also very important, i.e. getting the right celebrity to endorse the right brand. Consumers perceive the brand as having superior quality because it has been endorsed by a credible source. This makes endorsement as one of the indicators of quality for any brand. Corporate credibility along with endorser credibility plays a significant role in the attitude of the consumer towards the brand and the advertisement respectively. Theory and practice suggests that the use of stars and their unleashing power in advertising generate a lot of publicity and attention from the public but the underline questions are, do these stars really help a brand by increasing its sales? On the other hand, can they really have an Impact on the person's consumption pattern, thereby changing his brand preference? How an advertisement featuring a celebrity can influence consumers buying decision and can create an association between a brand and a common man. To understand this we will apply a wide range of accepted principles of how consumers brand attitudes and preferences can be influenced, how buyer's behavior can be influenced, how buyer's behavior can be molded. We will use the principles of credibility of source and attractiveness, the consumer decision-making model and the communication model to understand this phenomenon.

The present paper will examine the relationship between celebrity endorsements and brands, and the impact of celebrity endorsement on consumer's buying behaviour as well as how consumer makes brand preferences.

**Keywords:** celebrity-celebrity endorsement-consumer brand preference-consumer buying behaviour.

## Introduction

The crescendo of celebrities endorsing brands has been steadily increasing over the past 20 years or so. Marketers overtly acknowledge the power of celebrity in influencing buyer's purchase decision. They have firm believe that likeability or a favorable attitude towards a brand is created by the use of a celebrity. Crores of rupees spent per year on celebrity endorsement contracts show that celebrities like Amitabh Bachchan, Sharukh Khan and Sachin Tendulkar play an important role for the advertising industry. It is an established fact that celebrity endorsement can bestow unique features or special attributes upon a product that it may have lacked otherwise. In India from late 1970's and early 80's the new trend in advertising started. Brands started being endorsed by celebrities. Hindi film and TV stars as well as sportspersons were roped in to endorse prominent brands. Advertisements featuring stars like Late Jalal Agha (Pan Parag), Tabassum (Prestige cookers), Sunil Gavaskar for Dinesh Suiting, Ravi Shastri and Vivian Richards (Vimal), Persis Khambhata and Kapil Dev (Palmolive Shaving cream) became common. Though marketers should remember that celebrities are mere living beings like us and if they can highlight the benefits or advantages of a brand they can also have some uncanny negative impact. Theory and practice suggests that the use of stars and their unleashing power in advertising generate a lot of publicity and attention from the public but the underline questions are, do these stars really help a brand by increasing its sales? On the other hand, can they really have an Impact on the person's consumption pattern, thereby changing his brand preference? How an advertisement featuring a celebrity can influence consumers buying decision and can create an association between a brand and a common man. To answer these questions we will apply a wide range of accepted principles of how consumers brand attitudes and preferences can be influenced, how buyer's behavior can be influenced, how buyer's behavior can be molded. We will use the principles of credibility of source and attractiveness, the consumer decision-making model and the communication model to understand this phenomenon.

## Brand- A layman perspective

Brand is the proprietary visual, emotional, rational and cultural image that you can associate with a company or the product. Few examples will bring home the meaning i.e. **Amul** - utterly butterly delicious; **Coke** – thanda matlab coca-cola; (chill means coca-cola) **Pepsi** – Yeh dil mange more (my heart wants you more); **Kurkure**-Masti bole to kurkure. (Have fun with kurkure) These examples convey one message that when people watch advertisement a connect is being created and result is that people go for experience of buying. People feel by using the brand they will portray certain traits or characteristics that otherwise they do not have. This generates a certain level of emotional affiliation and a sense of fulfillment. It is the emotional relationship with brands that make them so powerful. Advertisements enforces what exactly the brand stands for and what to expect by its consumption and above all what factors, features and attributes makes it better from competition. Advertisements along with other marketing efforts generate expectations and feelings in a customer and force them to think when they see or hear the brand name. This Thinking process and emotional bonding gets more mature and relevant when a celebrity endorses the brand. The subjective intangible feelings of a

customer become objective and tangible in the form of celebrity and the level of expectations will rise. The customer will start to perceive himself in the reference frame of the celebrity after the brand or the advertised product has been purchased or consumed by him.

## Celebrity

Celebrities are people who enjoy public recognition and mostly they are the experts of their respective fields having wider influence in public life and societal domain. Attributes like attractiveness, extraordinary life style or special skills, larger than life image and demigod status can be associated with them. Social group celebrities generally differ from the social norm and enjoy high degree of public awareness. Celebrities appear in public in different ways. To start, they appear in public when fulfilling their professional commitments example: Mahendra Singh Dhoni, who played cricket in front of an audience in Twenty-Twenty World Cup. Furthermore, celebrities appear in public by attending special celebrity events, example: the movie award nights; special screening; world premiers of movies or for social causes. These celebrities have universal presence and appeal, they are present everywhere, in news, fashion shows and magazines, tabloids and above all advertisements.

## Celebrity and a Brand

Star power in India can be gauged by the successful endorsements done by Sharukh Khan (Pepsi, Hyundai Santro, Sunfeast, and Navratan etc.), Amitabh Bachchan, Sachin Tendulkar, Rahul Dravid, Hrithik Roshan and the others. The inevitable question is, if and how the lively interest of the public in the rich and famous can be efficiently and effectively used by companies to promote their brands and consequently to increase their sales revenues. This fact can be brought out by using certain examples i.e. Mr. Amitabh Bachchan promoting Cadbury chocolates after the fiasco of infestation when the image of Cadbury India went very low in the eyes of people. Soon the company found a perfect fit and a reliable celebrity to transmit the correct message and help regenerating the lost trust. The fit between the product and celebrity is evident as Mr. Bachchan and Cadbury chocolates both have tested troubled times and still they stand tall and the love and trust they both share with the people all across India. This is a live example of how a celebrity brought certain attributes to a product like chocolate. Moreover Actor Sharukh Khan has also endorsed diversified products. His endorsement basket is ranging from Hyundai Santro to Sunfeast biscuits on one hand and from Compaq computers to Videocon electronics on the other. According to Advertising research companies both the actors are doing well and the ad spent on both by the companies is increasing at a phenomenal rate, so does their basket of endorsements. These actors bring reliability and trust in the brand and above all, they help in increasing the sales revenues.

- Celebrity endorsements are powerful, has become evident from the above two examples but, why is it so? This power is offered by the following elements, which also creates a 'Top of the Mind Position'.

- Instant Awareness, knowledge about the brand and easy recall. Values and image of the brand is defined, highlighted and refreshed by the celebrity.
- The celebrity adds new edge and dimension to the brand.
- Credibility, trust, association, aspiration and connectivity to brand.
- Belief in efficiency and new appearance that will result in at least trial usage.

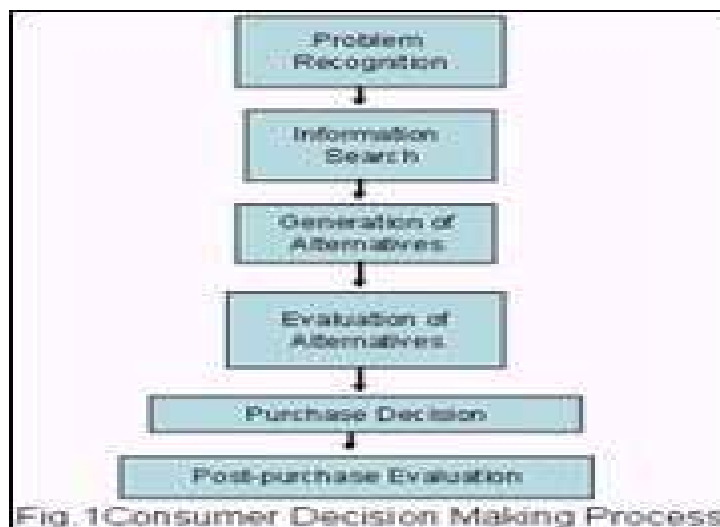
## Understanding Consumer Behaviour

Consumer behaviour is the study of how people buy, what they buy, when they buy and why they buy. It blends elements from psychology, sociology, sociopsychology, anthropology and economics. It attempts to understand the buyer decision-making process, both individually and in groups. It studies characteristics of individual consumers such as demographics, psychographics, and behavioral variables in an attempt to understand people's wants. It also tries to assess influences on the consumer from groups such as family, friends, reference groups, and society in general. The study and knowledge of consumer behavior helps firms and organizations to improve their marketing strategies and product offerings. Following are the important issues that have significant influence on consumer's psyche and their ability to take decisions:

- The psychology of how consumers think, feel, reason, and select between different alternatives (e.g., brands, products);
- The psychology of how the consumer is influenced by his or her environment (e.g., culture, family, signs, media);
- The behavior of consumers while shopping or making other marketing decisions;
- Limitations in consumer knowledge or information processing abilities influence decisions and marketing outcome;
- How consumer motivation and decision strategies differ between products that differ in their level of importance or interest that they entail for the consumer; and
- How marketers can adapt and improve their marketing campaigns and marketing strategies to more effectively reach the consumer.
- Their Age, Religion, Culture, Income, informal group and Referent Group.

Understanding these issues helps us adapt our strategies by taking the consumer into consideration.

## Consumer Decision-making process



The Process starts with problem recognition or with an unsatisfied need. Something that a consumer would like to have or purchase in order to attain satisfaction. This need can be Psychological, attitudinal or Physiological but yes it should have the capacity to be fulfilled by consuming a particular product or service. To satisfy the given need what all are the components that should be taken into consideration and how we can maximize the satisfaction is the next stage. In this stage, we will cover ability to purchase, level of involvement, people whose opinion will count and other relevant details that will help us in optimizing satisfaction. Based upon information search we will generate various alternatives i.e. which brand or product is affordable for me, where will it be available comfortably and above all in comparison to other brands or products how better or economical it is. Evaluation stage will look like cost benefit analysis and based upon maximum value or utility per rupee spend, we will decide or shortlist the product or brand. This is the decision and confirmation stage where the consumers prepares himself for the purchase of a particular brand and give preference to one and only one over and above the others. Next comes the purchase when the consumer will finally go to the market and look for the brand or the product, physically verifies it and purchases it. Last is the post purchase Evaluation in which the customer wants to justify his consumption or purchase decision. He tries to find out whether his purchase decision was right or not. Companies make lot of effort to tackle this situation successfully and they want the customer to be satisfied with their product. This stage may result into three situations, first is satisfaction where customer is satisfied and he got expected results but this does not necessitates the repeat purchase by the consumer. Second is dissonance where the consumer is not satisfied as he got less utility or less than expected result from the consumption or product performance. Third is Delight, here the consumer gets more than expected satisfaction and utility and this will assure the repeat purchase and creation of brand loyalty.



### Traditional Factors affecting consumer decision making

There are several factors that affect consumer's decision to purchase a brand and a product. These factors though at time are not very much visible but they make an impact and affects sales of a product or brand up to a great extent.

The table below shows some of these factors.

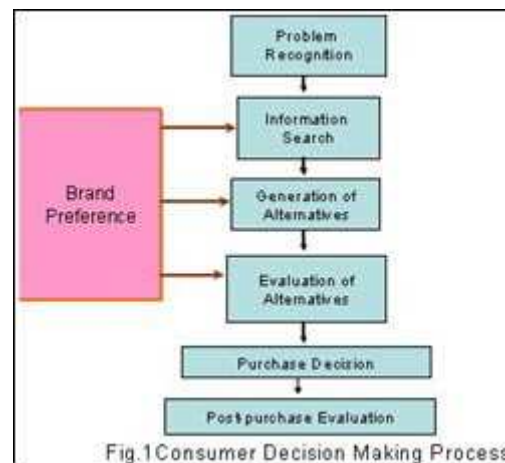
Traditional factors affecting consumer purchasing behaviors
Demographics (age, gender, income, etc.)
Heredity and home environment
Family life cycle
Life changing events
Cultural environment
Social environment
Situational environment
Table 1. Factors affecting consumer purchasing decisions

### Impact of a Brand on consumer purchase decision

Research studies have proven that known products and names are sold more than unknown ones. Therefore, a known brand or an optimally exposed brand will find more recognition and buyers in the market in comparison to completely unknown or unexposed brand. Recognition of brand and its significance along with the traditional factors plays a very significant role in consumer decision-making process.

More or less every consumer has a brand preference and given the affordability and societal norms, each buyer would like to buy and consume one of the highly acceptable, recognizable, and reputed brands.





The above given model explains the important role that a brand plays in three different stages of consumer's purchase decision making. A consumer start collecting data or information about his favourite brand than he keeps his favourite as one of the alternatives and he evaluate his selected brand against all available options and on finding it suitable or best among all options based upon a qualitative and quantitative evaluation he will ultimately purchase the selected or favourite brand. Celebrities also create positive feelings towards brands, connect user to brand and are perceived by consumers as more entertaining. Using a celebrity in advertising or for any, other type of communication for brand building is likely to positively affect consumers' brand preference, brand attitude, brand association and purchase intentions. To ensure positive results, however, it is critical for advertisers to have a clear understanding of consumer's reactions and reinforcement of celebrity endorsement. The impact of celebrity endorsement on any brand as well as on consumer's purchase decision is very critical.

### Source Credibility

Central goal of advertising is the convincing of consumers and persuasion to purchase, the ultimate objective, though not openly spoken, is to some how attract consumers to the market offering of the company, generating positive attitude, reinforce positive association and ultimately to generate sales, may be a trial purchase. At later stages, the sponsor may work towards creating a brand loyalty but generating initial sales or increasing the existing sales is the primary objective. In this respect, the credibility of an endorser along with advertisement plays an important role in convincing the target audience of the attractiveness of the company's brand and generates sales. Pursuing a celebrity endorsement strategy enables advertisers to project a credible image in terms of expertise, persuasiveness, trustworthiness, and objectiveness. To create effective messages, celebrity advertisers also have to consider the attractiveness of the spokesperson. Source attractiveness refers to the endorser's Physical appearance, Personality, Likeability and Similarity to the receiver, thus to the perceived social value of the source. This behavior mainly goes back to halo effect, whereby persons who perform well on one dimension example: physical attractiveness or top professional performance, social status are assumed to excel on other levels as well i.e. happiness and coolness. This is evident from the use of Fardeen Khan, modern, dynamic, outgoing and smart personality for

Provogue; he translates the modernism of the brand well. Titan uses Aamir Khan in his different avatars for communicating to the public that their watches are as reliable and passionate as Aamir is for films. Both Fardeen and Aamir carry the message well and enhance the credibility of the brand they endorse.

### **Establishing a Perfect Match**

Research proves that a spokesperson especially for a service product or organization (ICICI- First Amitabh Bachchan, now Shahrukh Khan) interacts with the type of brand being advertised. These stars communicate the value of the product and transform an ordinary service into a miracle solution for all problems of an ordinary customer. According to Friedman and Friedman (1979), a famous relative to a 'normal' spokesperson is more effective for products high in psychological or social risk, involving such elements as good taste, self-image, and opinion of others. Several research studies have examined the congruency between celebrity endorsers and brands to explain the effectiveness of using famous persons to promote brands. In India, a brand called Reid & Taylor presented its perfect example when they first launched their advertising campaign featuring James Bond fame of the time Mr. Pierce Brosnan along with the tagline 'BOND WITH THE BEST' but the James Bond idea did not work and the company was not happy with the results. After the debacle of the first campaign, company introduced a family ad where children are celebrating their parents silver wedding anniversary and they are out with their father to purchase a suit for him. Even this commercial did not work and it was taken off the air. As a last resort, company introduced Mr. Amitabh Bachchan as Reid & Taylor man, a man propagating the brand for special occasion and for very special people in life. The commercial from the initial days got good response and did extremely well as people were able to connect with Mr. Bachchan and the values he was propagating. For the masses, there was a perfect match of an ideal Indian family man, a star and a good quality but bit highly priced brand reserved especially for special occasions and for very special people. Second example that can be quoted is of Vishwanathan Anand, who endorsed NIIT. NIIT adopted a very smart strategy by roping in Vishwanathan Anand an international chess wizard for their advertising campaign. As chess is considered to be a game full of strategies and a game for smart people and when one of the greats of the game is asking people to join NIIT it was supposed to have a positive influence on the people and actually it had. There was complete congruency and compatibility between the celebrity endorser, the product and the message. Contrary to only favorable outcomes, there are several examples where the product, even the entire campaign collapsed due to heavy weight celebrity as the agency or the ad failed to establish the relationship between the endorser and the product. Keeping the focus only on success, where the product and the celebrity were a perfect match, following are few examples:

<i>Celebrity Endorser</i>	<i>Company / Product</i>
<i>Amitabh Bachchan</i>	* Dabur * Cadbury * Reid and Taylor * Parker
<i>Shahrukh Khan</i>	* Santro * Videocon * Sunfeast * Pepsi
<i>Juhi Chawala</i>	* Kurkure
<i>Ustad Zakir Hussain</i>	* Taj mahal tea
<i>Aamir Khan</i>	* Titan * Coke * Toyota Innova
<i>Aishwarya Rai</i>	* Nakshatra * Lux
<i>Rani Mukherjee</i>	* Fanta * Nestle Munch
<i>Kajol and Ajay Devgan</i>	* Whirlpool * Tata Indicom

The campaigns are not only basking with the glory of success stories, but there is considerable number of failures as well. Assuming that a person just have to be famous to represent a successful brand, however, would be incorrect and may turn out to be a very dangerous preposition resulting into a big calamity for the entire advertising campaign or the brand. Very well accepted and attractive super stars like Abhishek Bachchan and Amitabh Bachchan failed in turning their endorsements into success i.e. Maruti Versa similarly Virendra Sehwag also failed to deliver Reliance Telecommunication with the master stroke of his cricketing genius. Among the possible reasons identified by several authors, including overexposure and identification, the 'match-up hypothesis' specifically suggests that the effectiveness depends on the existence of a 'fit' between the celebrity spokesperson and endorsed brand. Empirical work on the congruency of brand with the celebrity often has concentrated on the physical attractiveness of the endorser. Results show that an attractive spokespersons are more effective in terms of attitude change when prompting brands that enhance one's attractiveness i.e. cosmetics; health drinks or fashion wear. Primary data states, for celebrity spokespersons to be truly effective, they should be knowledgeable, experienced, mature, and a bench mark in their respective field and qualified to talk about the product.

### Transferring the Meaning

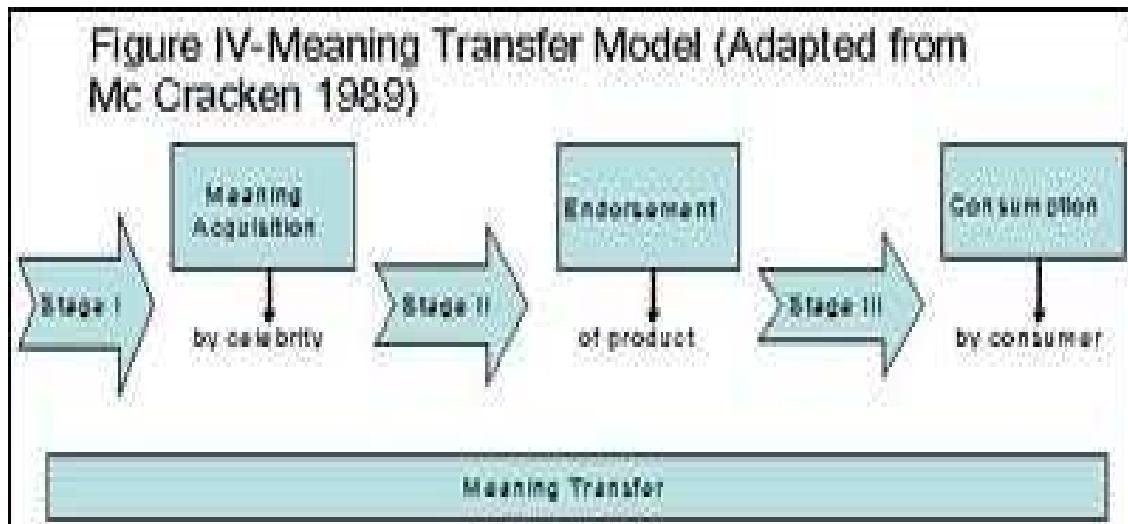
After watching an advertisement the consumers try to find the meaning of the advertisement and associate the same with the endorser and eventually transfer to the brand. To understand this phenomenon Mc Cracken (1989) suggested a comprehensive model known as Meaning Transfer

Model. This three-stage model suggests how the meaning associated with the famous person moves from the endorser to the product or the brand. Thus, meanings attributed to the celebrity become associated with the brand in the consumer's mind. Finally, in the consumption process, the customer acquires the brand's meaning. The third stage of the model explicitly shows the importance of the consumer's role in the process of endorsing brands with famous persons. In contrast to anonymous endorsers, celebrities add value to the image transfer process by offering meanings of extra depth and power, what is complemented by their life style and personalities. Therefore, to transfer the correct meaning to the consumer the company should select a celebrity that will produce the most favorable response for consumers and for the purpose the celebrity should have, the appropriate set of characteristics and the public should be able to visualize and comprehend the same. The company should consider the consumer's needs while developing their communication strategy and selecting an appropriate celebrity to transmit the same, i.e. Kurkure used actress Juhi Chawala with the punch line 'Masti Bole To Kurkure'(Have fun with kurkure) and the actress on screen and off-screen personifies the masti and helps the brand in communicating the same easily. Compatibility of the celebrity's personality with the overall brand image is very important, as a celebrity imparts credibility and inspirational value to a brand and his or her image should perfectly match the brand's image. A good brand campaign idea and an intrinsic link between the celebrity and the message are must for a successful campaign.

Certain elements that generate a perfect match or compatibility between the celebrity and brand image are:

- Celebrity's fit with the brand image along with celebrity-target audience match.
- Celebrity associated values and celebrity-product match.
- Costs of acquiring the celebrity and his or her popularity along with controversy risks associated with the celebrity.
- Credibility, availability and physical attractiveness of celebrity.

The above points can be put to perspective by using two examples, first Kapil Dev's 'Palmolive da jawaab nahin' and second Nakshatra's brand recall due to its endorser, the gorgeous Aishwarya Rai Bachchan. Both brands have edged out and carved out their niche in consumer's mind due to image and credibility of their endorsers. These were the cases of perfect match between the brand image and the image or persona of the celebrity endorser.



## Conclusion

A brief assessment of the current market situation indicates, that celebrity endorsement advertising strategy can be successful under the right circumstances indeed justify the high costs associated with this form of advertising. The use of celebrity for endorsements create a very favorable impact on the consumer and it creates a connect which forces a consumer to purchase a product. However, as several failures show, it is essential for advertisers to be aware of the complex processes underlying celebrity endorsement. It has been proved that celebrity endorsements are a powerful and useful tool that magnifies the effect of a campaign but the word of caution to be followed seriously; celebrities alone do not guarantee success nor does a great advertising campaign or the best possible product. It is the combination of several factors and elements that work together for the success of a brand and its acceptance in the minds of consumers as well as for its market offering. Modern day consumers are well educated and smart, they know celebrities are being paid for these endorsements and this knowledge makes consumers rather more cynical about the product and celebrity endorsements. Majority of the consuming population also knows what is advertising and how it actually works and this knowledge of consumer makes the task of celebrity endorsement all the more difficult and challenging for the advertising companies and the sponsors. Indian companies both advertising and product offering companies have to make an effort to overcome this ever-mounting challenge.

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## THE EFFECT OF SAMPLING ON YOUNG MALAYSIAN CHILDREN'S FOOD PREFERENCE

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### **Abstract**

The objectives of this research are to determine the awareness of sample among the young Malaysian children, identifying the preferred sample and determining the effect of sample on young Malaysian children's food preferences. Interview and experimentation have been used to collect the data. The samples were young Malaysian children aged five to six. The important findings were young Malaysian children being more attracted to the product offered with sample compared without sample. Food sample would be the most favorable choice among the young Malaysian children and it can be related to availability of attractive sample. The findings will open up a new dimension on the possibility of influencing young Malaysian children to purchase healthier food using sample.

**Keywords:** Sampling, Children, Food Preference

### **Introduction**

Increasing in marketing's awareness and targeting of children as consumers gave rise at 1990. This primarily due to the rapid growth in economic power since according to sample or market research data the numbers have remained moderately constant at around 4 million per age group. Found by McNeal (1999), both children's spending and their influence on parental spending are reported to have been increasing at an unadjusted rate of fifteen to twenty (15-20) percent annually during the 1990s. 1997 shows that children ages 4 to twelve spent approximately twenty third dollar (\$23.4) billion of their own money and directly influenced about hundred and eighty eight dollar (\$187.7) billion of their parents' spending. An additional reason for marketers' increased interest in children as consumers is identification that they comprise a future market for all goods and services that can be nurtured throughout children's development so that they become a steady stream of new customers for a firm at the appropriate time. Horovitz (1997) give an example mentioned that members of the auto and airline industries both target children as future consumers.

This study is largely exploratory in nature and seeks to investigate the effect of sampling on young Malay children food preferences. Specifically, the objectives are as follows:

- To determine the Awareness of Sampling among the young Malay Children.
- To identify the Preferred Sample on young Malay Children Food Preferences.
- To determine the Effects of Sample on young Malay Children Food Preferences.

## Literature Review

Guest (1955) was the first introduced the children's consumer behavior to marketing with the topics published on brand loyalty and conspicuous consumption (Reisman and Rosenborough 1955; c.f., John 1999). In 1960, research still gave insight into children at a consumer market, and the understanding of marketing and retail functions (McNeal 1964). In the era 1970, the researchers became aware that children had become a very important target group for marketers. Next research on 2002 mentioned by Cross that the intense marketing to children has been at the forefront of the blame for commercializing childhood and making children materialistic. On the same years, Cross and other researcher Lipscomb (1998) have claimed that marketers have taken advantage of others' perceptions of children being vulnerable and innocent and have focused their marketing to children.

Researches on children proceed at the year of 2003, mentioned by Hastings et al. stated that children expanding their purchasing power and increased their capability to make their own purchase choices and increasing their influence on household purchases. At the same years also, Hastings et al. informed that Sweden has imposed a ban on all advertising to children under twelve years old and Greece has regulated the content on children's television advertising. However, my study not to focus on marketing or advertising side but my study focuses at the effect of sampling on young Malay children food preferences. This entire research overview expose on the literature review to let readers clear understand concerning children. Readers required to gaining knowledge of sampling awareness and children's food preferences before get understanding the effect of sampling on children. All this approaches will let readers gaining more knowledge regarding this study.

## Definition of Sample

Refer to Bennett (1995), sample can be defines as a small portion of a product that is made available to prospective purchasers to demonstrate the product's value or use and to encourage future purchase. According to Freedman (1986) and Kotler (1997) has been described product sampling as an excellent way to introduce new and unusual products. For that reason, sampling would seem an important and useful strategy to use to influence children's food preferences and purchases. McGuinness et al. (1995) define product sampling as a sales promotion technique used by marketers to encourage "consumer trial". Ailloni-Charas (1984) states that this technique involves giving away trial-sized quantity of a product with little risk and no obligation. This promotional tool may have an immediate use, like tasting a food product in store.

## The Sampling Awareness among Young Children

Giving the main objective of product sampling is to encourage product trial (Belch and Belch, 1990; Meyer, 1982), it is then possible to measure its effectiveness using sample trial rate or and the purchase rate (McGuinness et al. 1995). Earlier studies, such as Marks and Kamin (1988), assess product sampling effectiveness through purchase intentions. Lodish et al. (1995), however, argue that purchase intention is not a good predictor of the actual purchase behavior. The importance of product sampling as a promotional tool has increased substantially in recent years (Marketing Week, 1997). A survey-based study conducted by Donnelly Marketing, Inc. (1990) shows that seventy five (75) per cent of



companies offer free samples to promote new products while fifty two (52) per cent do so to promote their established products. Although product sampling is a powerful promotional tool, it is also very costly (Soods, 1996; Hunt and Jupe, 1994). Hence, it is important that managers carefully examine the costs associated with product sampling.

Over the last few decades sales promotion had become of great interest to researchers. This has been said; however, research studies have focused on some tools of sales promotion, such as price reductions and couponing, and have put little emphasis on others. One particularly important promotional tool that was largely ignored in the literature is product sampling (Bawa and Shoemaker, 2004; Heiman et al., 2001). Commenting on the lack of research on product sampling Bawa and Shoemaker (2004) conclude; although usage of free samples appears to be high compared with usage of other consumer promotions such as coupons alone, little is currently known about the brand and consumer characteristics that are related to this behavior.

Research on the effects of sampling on children's food choices has also been lacking in literature. Fazio and Zanna (1981) found that experience of an object leads to more strongly learned associations between attitude and behavior for adults (c.f. East 1997). Smith and Swinyard (1983) found that attitudes of adults were changed much more by sampling than by advertising, and that subsequent purchase was better predicted by attitudes derived from sampling. Moore and Lutz (2000) investigated children's attitudes and beliefs after sampling of food. They found that sampling led to greater beliefs and attitude confidence in children. However the study did not investigate whether these attitudes and beliefs lead to greater preferences for those products and whether these preferences would lead to actual product purchase. It is important to know if sampling encourages product purchases among children. If children sample a healthy food product at school, are they more likely to purchase that product? Sampling awareness also been focused in Green Celebration Campaign (June 2008) which is aimed promoting environmental awareness among the participants. This campaign collecting green pledges to represent commitment towards environmental conservation and programs geared towards bringing environmental awareness to the public. 2 companies used product sampling purposely to support this campaign. In other words, product sampling can be as a method makes this program run successfully. The first one is BonusLink as an event sponsor providing an array of games and activities for children as well as drinks sampling at their booth while Country Farm Organics as a second company been holding organic food cooking demonstrations and product sampling.

### **The Preferred Sample on Young Children Food Preferences**

The goal for this study is to increase understanding of children's food preferences. The word "preference" refers to the selection of one item over others (Birch 1999). Research shows that many factors can be effect on children's food preferences including the availability, promotion of food, branding, familiar label, family influence and sampling. Nevertheless, this study only focuses on the effect of sampling on young Malay children food preferences. Branding of foods and beverages can give influences on young children's taste perceptions. In a prior experiment, researchers demonstrated

even a single exposure to a television advertisement affected preschool children's brand preferences. McDonald's been chosen because it is the largest fast food advertiser in the United States, and researchers expected most, if not all, preschool children to be familiar with the McDonald's brand because of extensive marketing. Researchers' hypothesized children from 3 to 5 years old would prefer the taste of foods that they perceived to be from McDonald has compared with the same foods without McDonald's branding (Robinson, Matheson, Kraemer, et al., August 2007).

Cereal is one of the first products that children request most from their parents. According to that, RTE cereal industry been utilizes a variety of advertising and promotional media such as magazines, television and most importantly packaging itself indirectly and directly target very young children. Promotional media also attract children's on their food preferences (McNeal and Ji 2003). Other than that, children also learn to want the products linked to favorite shows i.e. toys, clothes, lunch boxes and food. In addition, children see forty thousand ads on the screen every year. Young children are victims of marketing because they believe what they see and hear (Action Guide 2008).

### **The Effects of Sampling on Young Children Food Preferences**

Some research on the effects of sampling has been conducted among the adult populations, the effects of sampling on children has received little attention in literature, with only one article published in this field (Moore and Lutz 2000). Past research on the effects of sampling on adults' and children's attitudes and beliefs have shown that consumers respond to advertising and sampling in distinctive ways (Moore and Lutz 2000). In addition, it has been found that sampling leads to more strongly learned associations between attitude and behaviour (East 1997) and that it has a stronger impact on consumers compared to advertising (Fazio 1986).

Moore and Lutz (2000) have been contributed examining the effects of product sampling on children's attitudes. These researchers examined the prepurchase effects of sampling and advertising on children. In addition, advertising was also found to have significant influence on children's perceptions. These results are consistent with the studies that examined the attitudes and beliefs of adults after sampling and advertising. Lammers (1991) has filled the void in literature on the effects of sampling on actual purchase. He investigated the effect of sampling of chocolate on immediate consumer purchase in a natural store environment in an experiment over a period of three days. The first fifty people who entered the chocolate store received a free sample of the product while the last fifty did not. The researcher recorded if those who sampled made a purchase. Lammers (1991) found sampling significantly increased the immediate sales of chocolates.

Paine-Andrews et al. (1996) investigated the use of prompting, product sampling and price reduction to increase purchases of lower-fat items at a supermarket. The researchers conducted direct observations of customer purchases of lower fat milk, salad dressings, and frozen desserts at one supermarket store. The study was conducted using a quasi-experimental design during an interrupted time series design, with multiple baselines across products with replications (Baer et al. 1968). The researchers found that prompting, product sampling and price reduction of lower-fat products increased customer purchases of these products.

Bawa and Shoemaker (2004) mentioned usage of free samples is high suggesting that consumers are sensitive to gratuity. Even if the relation between usage of free samples and purchase behavior were not evident here, samples trial possibly would result in a construction of a brand or product franchise (Prentice, 1975). In addition, based on behavior learning theory, trying product samples may shape and reinforce positive behavior on the long run. Free samples usage has likely a positive impact on brand image (Ben Amor, 2007). This may induce managers to launch more product sampling campaigns.

## Methodology

### First Method: Interview Session

A number of eighty seven respondents were selected by researcher due to complete the session. Brief explanation on the objective of the interview session was described by the researcher before the children get started to answer the questions. Research instruments consisting of questionnaires were divided into open ended and close questions was developed. The children perception and opinions about sample were measured in this session. The result of this survey would determine the awareness, identify the preferred sample and determine the effects of sample on young Malay children food preferences presented in this finding. International Islamic University Malaysia Educare which is also known as IIUM Educare has been selected as a place to perform this interview session. To reciprocate children's cooperation, patient and full support researcher gave a small presents to them as a token of appreciation.

### Sample

The sample comprised of eighty seven respondents from five to six years old including girls and boys. The survey was conducted in 4 classes. Two classes for 5 years old students and another two classes are for 6 years old students.

### Time Allocation

The study was started and conducted in June 2008 and it took 6 months to complete the data collection and analysis.

## Data Analysis

<i>Gender</i>	<i>Frequency N = 87</i>	<i>Percent (%)</i>
<i>Boy</i>	47	54
<i>SGirl</i>	40	46
<i>Total</i>	87	100

Table 1: Gender of Respondents

<i>Age</i>	<i>Frequency N = 87</i>	<i>Percent (%)</i>
5	45	51.7
6	42	48.3
<i>Total</i>	87	100

Table 2: Age of Respondents

<i>Gender</i>	<i>Description</i>	<i>Percent (%)</i>
Boy	<i>Aware</i>	10.64
Boy	<i>Unaware</i>	89.36
<i>Total</i>		100

<i>Gender</i>	<i>Description</i>	<i>Percent (%)</i>
Girl	<i>Aware</i>	5
Girl	<i>Unaware</i>	95
<i>Total</i>		100

Table 4: Awareness on Sample by Gender

**First Objective:** To Determine the Awareness of Sample among the Young Malay Children

Only 6.9 per cent of respondent aware about the word of "sample" compared with unaware results answered by respondents, which is shows highest percentage (93.1 per cent).

Table 4 shows that boy leads large percentage aware about sample by approximately eleven (10.64) per cent while girl only 5 per cent. Girl shows highest percentage unaware of sample by ninety five (95) per cent while boy round up to ninety (89.36) per cent.

**Second Objective:** To Identify the Preferred Sample on Young Malay Children Food Preferences

<i>Description</i>	<i>Percent (%)</i>
<i>Food (Chicken Nuggets)</i>	35
<i>Toy</i>	33.3
<i>Pencil</i>	30
<i>Total</i>	98.3

Table 5: Preferred Sample

Table 5 shows three preferred sample that been chosen by the respondents. Food becomes the first choice by showing highest percentage (35 per cent) compared toy thirty three (33) per cent and pencil thirty (30) per cent. Total of percentage not achieve up to hundred (100) per cent due to one of respondent fail to give cooperation (confuse and cannot give the answer) during interview session.

<i>Gender</i>	<i>Description</i>	<i>Percent (%)</i>
<i>Boy</i>	<i>Food(Chicken Nuggets)</i>	<i>40.4</i>
	<i>Toy</i>	<i>36.20</i>
	<i>Pencil</i>	<i>23.4</i>
<i>Total</i>	<i>100</i>	<i>100</i>

<i>Gender</i>	<i>Description</i>	<i>Percent (%)</i>
<i>Girl</i>	<i>Food(Chicken Nuggets)</i>	<i>27.5</i>
	<i>Toy</i>	<i>32.5</i>
	<i>Pencil</i>	<i>37.5</i>
<i>Total</i>	<i>100</i>	<i>97.5</i>

*Table 6: Preferred Sample by Gender*

Table 6 shows preferred sample population by gender. Food become the first choice for boy (40.4 per cent) while girl (27.5 per cent). Toy become the second choice for boy by showing (36.2 per cent) while girl (32.5 per cent). Pencil becomes the third choice for boy (23.4 per cent) while become the second choice for girl by stated approximately thirty eight (37.5) per cent. Total percentage for girl stated only about ninety eight (97.5) percent due to one respondent cannot give the answered and confuse during experiment session.

**Third Objective:** To Determine the Effects of Sample on Young Malay Children Food Preferences

<i>Scenario 1</i>	<i>Percent (%)</i>
<i>Chicken Nuggets A</i>	<i>63.2</i>
<i>Chicken Nuggets B</i>	<i>36.8</i>
<i>Total</i>	<i>100</i>

*Table 7: Scenario 1 (Without Sample)*

Based on first experiment conducted at scenario 1 shows that children more prefer to choose chicken nuggets A with the per cent of about sixty three (63.2) compare than chicken nuggets B with stated on table 7 only showing about thirty seven (36.8) per cent from the result finding.

<i>Gender</i>	<i>Scenario 1</i>	<i>Percent (%)</i>
<i>Boy</i>	<i>Chicken Nuggets (A)</i>	<i>68.1</i>
<i>Boy</i>	<i>Chicken Nuggets (B)</i>	<i>31.9</i>
<i>Total</i>		<i>100</i>

<i>Gender</i>	<i>Scenario 1</i>	<i>Percent (%)</i>
<i>Girl</i>	<i>Chicken Nuggets (A)</i>	<i>57.5</i>
<i>Girl</i>	<i>Chicken Nuggets (B)</i>	<i>42.5</i>
<i>Total</i>		<i>100</i>

*Table 8: Scenario 1 (Without Sample) by Gender*

<i>Scenario 1</i>	<i>Percent (%)</i>
<i>Chicken Nuggets A (With sample)</i>	<i>80.5</i>
<i>Chicken Nuggets B (Without sample)</i>	<i>19.5</i>
<i>Total</i>	<i>100</i>

*Table 9: Scenario 2 (With Sample)*

Table 8 shows that selected for chicken nuggets A stated highest percentage for both genders. Boy (68.1 per cent) while girl (57.5 per cent). Chicken nuggets B become the second choice shows about forty three (42.5) per cent for girl and approximately thirty two (31.9) per cent for boy.

Chicken nuggets A with providing sample (stated at scenario 2, table 9) showing largest percentage (80.5 per cent) while chicken nugget B which is not providing sample only found about twenty (19.5) per cent as a result. This is shows that providing sample can attract more in children's interest and preference.

<i>Gender</i>	<i>Scenario 2</i>	<i>Percent (%)</i>
<i>Boy</i>	<i>Chicken Nuggets (A)</i>	87.23
<i>Boy</i>	<i>Chicken Nuggets (B)</i>	12.77
<i>Total</i>		100

<i>Gender</i>	<i>Scenario 2</i>	<i>Percent (%)</i>
<i>Girl</i>	<i>Chicken Nuggets (A)</i>	75
<i>Girl</i>	<i>Chicken Nuggets (B)</i>	25
<i>Total</i>		100

*Table 10: Scenario 2 (With Sample) by Gender*

Scenario 2 at table 10 stated that chicken nuggets (A) providing with sample become the vital choice for both genders. It shows the highest percentage. Boy (87.23 per cent) and girl show (75 per cent). Chicken nuggets (B) without providing sample showing the lower percentage for the both genders. Percentage stated (25 per cent) for girl and (12.77 per cent) for boy. In conclusion, sample really can attract children in determining their choices.

## **Conclusion**

### **First Objective: To Determine the Awareness of Sample among the Young Malay Children**

Researcher found that majority of the young Malay children was not aware of the exact meaning of sample. It is because the findings only show 6.9 per cent of children aware and knowing about it. Lack of reading and exposure from surrounding people, may be some reason of why young Malay children do not aware the meaning of sample.

### **Second Objective: To Identify the Preferred Sample on Young Malay Children Food Preferences**

The finding showed that young Malay children prefer to choose food sample compared to toy and pencil. Food sample noted as highest percentage (35 per cent) from the survey followed by toy about thirty three (33.3) per cent and pencil was thirty (30) per cent. Food becomes the first choice due to some reasons. This finding tells us that product sample can be strong reasons why children prefer to choose food as their vital preference.

### **Third Objective: To Determine the Effects of Sample on Young Malay Children Food Preferences**

As predicted earlier, children chose chicken nuggets A which is provide with sample. This finding shows that sample can influence on children belief, attitude and confidence in determining their preference. Other than that, sampling also really can switch children food preferences. Researcher hope from results of this study will assist the marketing industry, advertisement and any related field

in promoting their product by using effective method by giving sample in way to attract customer's attention and interest. Other than that, this is also a way how they can promote their product effectively. Besides helping the industry, this study also can give new information and knowledge to the children regarding the exact meaning of sample as well as can develop children's skills in answering question during interview take place.

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## ORGANIZATIONAL FACTORS AND ABSENTEEISM: A COMPARISON BETWEEN FOUR OCCUPATIONAL GRADES

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### Abstract

The aim of this paper is to explore organizational factors which are responsible for sickness absence among occupational grades. The approach taken is a quantitative analysis with a multinomial logit model. As unexpected, for blue-collar employees, skill variety, monotony and flexible schedule don't affect absenteeism but in the same time, colleagues support and autonomy increase short-term absenteeism. For lower white-collar, autonomy is negatively linked to three categories of absenteeism. This determinant of absenteeism seems quite strong for this grade. For clerks, flexible schedule increases short-term absences but decreases long-term absences. For upper white-collar, monotony and flexible schedule have a strong impact on absenteeism. Whatever the employees' grade, hierarchical control and bullying have the effect of increasing absenteeism. We emphasize the importance of Human Resources Practices differentiated occupational grades. The interest of the study is to examine the relations between a large set of organizational factors (including bullying, tension with the public, aggression from the public) and absenteeism after controlling for many variables (size of the organization, work sector, gender, age, tenure, work status, social and occupation group, and position) and to compare the results between occupational grades.

**Keywords:** Comparison between occupational grades, absenteeism, work organization, working conditions, social relations

### Introduction

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 behaviour, influenced by factors such as shared attitudes to work (absence culture) or employees' satisfaction with their jobs. Absenteeism is thus considered as an individual phenomenon more than an organizational one. These individual models often ignore the role of work organization and working conditions for explaining absenteeism. In the present research, these organizational variables will be introduced in the model explaining sickness absence. Therefore we clearly choose an organizational approach for building our model.

Few studies in management have studied the link between organizational factors and absenteeism, 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 focus on attitudes

(like work satisfaction, organizational commitment, job involvement) and neglect work organization and working conditions. Furthermore, most of these studies don't control the confounding effects of work status, social and occupation groups and positions. Lastly, this type of empirical research based on a comparison between different workers population has seldom been done before in the absenteeism literature (Johns, 2003).

The major goal of the research is to understand the unexplored occupational-grade specific relationships between organizational factors and absenteeism.

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

The other aim of the present study is to give a multifactorial background of sickness absence 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 have been studied (Blank et al. 1995; North et al., 1996). But most of the studies on sickness absence postulate that the relationships with sickness absence are the same among occupational categories. To our knowledge, only one study used an occupational-specific model to explain sickness absence (Pousette et al., 2002). By comparing a generic model with an occupational-specific model, the authors showed that occupation-specific models were more plausible. Therefore, we presuppose that:

H1: Work organization has occupational-grade specific relationships with absenteeism.

H2: Working conditions have occupational-grade specific relationships with absenteeism.

H3: Social relations at work (support from supervisor and colleagues, hierarchical control) have occupational-grade specific relationships with absenteeism.

## **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' including workers of both private and public sectors. 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 work organization and working conditions factors relative to sickness absence. The organizational variables are as follows: in Table 1.

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

Table 3. Organizational and control variables of our model

The approach taken is a quantitative analysis on a total of 7915 Blue-Collars, 3386 Upper White-Collars, 6694 Lower White-Collars, 6491 Clerks with multinomial Logit models for each occupational status. The multivariate analyses is performed by multinomial logistic regressions 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), positions (research, secretarial work and reception, accounting, cleaning, business and sale, production, installation, handling, CEO, health work).

### 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.

*Working hours* are the average weekly hours at work.

*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 ( $\alpha = .72$ ).

*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 ( $\alpha = .70$ ).

*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  $\alpha = .83$  and  $\alpha = .78$ ).

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

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

### Statistical analysis

Analyses are made on individual data with organizational factors as predictors of absence days, 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 (Tenenhaus, 2007). Logistic regression analyses were implemented with SPSS 15.0.

## **Results of the research**

Unexpectedly, for blue-collar employees (Table 2), skill variety, monotony and flexible schedule don't affect absenteeism but in the same time, autonomy increases short-term absenteeism. At the same time, colleagues support increases the absenteeism of blue-collar workers. Furthermore, for blue collar-workers, bad working conditions (painful postures, noise and thermal pollutions) have no impact on absenteeism compared to other grade categories. For lower white-collar (Table 2), autonomy is negatively linked to three categories of absenteeism – temporary, short and long sickness absence. This determinant of absenteeism seems quite strong for this grade. For clerks (Table 2), flexible schedule increases temporary absence but decreases long-term absence. In the same way, for clerks, post rotation decreases short-term absence but increases middle sickness-absence. For upper white-collar (Table 2), monotony and flexible schedule have a strong impact on absenteeism. Whatever the employees' grade, hierarchical control and bullying have the effect of increasing absenteeism. Furthermore, time pressure influences absenteeism only for clerks.

Thus, our three hypotheses are partially confirmed. There are occupation-specific relationships between in the one hand work organization, working conditions and social relations and in the other hand absenteeism except for the two following organizational variables: hierarchical control (work organization) and bullying.

	<i>Temporary absence: 1-3 days</i>				<i>Short sickness absence: 4-7 days</i>				<i>Middle sickness absence: 8-15 days</i>				<i>Long sickness absence: +16 days</i>			
	<i>Upper White Collar</i>	<i>Lower White Collar</i>	<i>Clerk</i>	<i>Blue Collar</i>	<i>Upper White Collar</i>	<i>Lower White Collar</i>	<i>Clerk</i>	<i>Blue Collar</i>	<i>Upper White Collar</i>	<i>Lower White Collar</i>	<i>Clerk</i>	<i>Blue Collar</i>	<i>Upper White Collar</i>	<i>Lower White Collar</i>	<i>Clerk</i>	<i>Blue Collar</i>
<b>Work organization variables</b>																
<i>Supervisor support</i>	<i>ns</i>	<i>-0,052 **</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>-0,074 **</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>-0,081 **</i>	<i>-0,058 **</i>	<i>-0,058 **</i>	<i>ns</i>	<i>-0,064 **</i>	<i>-0,071 ***</i>	<i>-0,108 ***</i>
<i>Colleagues support</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>0,113 **</i>	<i>ns</i>	<i>Ns</i>	<i>-0,061 **</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>0,076 ***</i>
<i>Hierarchical control</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>0,336 *</i>	<i>ns</i>	<i>0,256 *</i>	<i>0,227 **</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>0,282 *</i>	<i>0,668 **</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>
<i>Monotonous Work</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>Ns</i>	<i>ns</i>	<i>ns</i>	<i>0,305 ***</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>
<i>Time pressure</i>	<i>ns</i>	<i>ns</i>	<i>0,055 *</i>	<i>ns</i>	<i>ns</i>	<i>Ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>0,065 **</i>	<i>ns</i>
<i>Working hours</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>Ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>-0,036 ***</i>	<i>-0,036 ***</i>	<i>-0,012 *</i>	<i>ns</i>

<i>Flexible schedule</i>	<i>ns</i>	<i>ns</i>	<i>0,141</i> *	<i>ns</i>	<i>-0,220</i> ***	<i>-0,173</i> **	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>-0,193</i> **	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>-0,190</i> **	<i>ns</i>
<i>Skill variety</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>Ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>0,069</i> *	<i>-0,046</i> *	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>
<i>Autonomy</i>	<i>ns</i>	<i>-0,155</i> *	<i>ns</i>	<i>0,312</i> **	<i>ns</i>	<i>-0,286</i> ***	<i>-0,286</i> ***	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>-0,297</i> ***	<i>ns</i>	<i>ns</i>
<i>Shift work without nights</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>2,099</i> ***	<i>Ns</i>	<i>ns</i>	<i>0,473</i> *	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>
<i>Shift work with nights</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>Ns</i>	<i>ns</i>	<i>0,610</i> *	<i>ns</i>	<i>ns</i>	<i>0,940</i> ***	<i>ns</i>	<i>2,027</i> ***	<i>ns</i>	<i>ns</i>	<i>ns</i>
<i>No shift work</i>	<i>Ref</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>Ref</i>	<i>Ns</i>	<i>ns</i>	<i>ns</i>	<i>Ref</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>Ref</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>
<i>Post rotation</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>Ns</i>	<i>-0,385</i> **	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>0,258</i> *	<i>0,984</i> ***	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>
<b><i>Working conditions variable</i></b>																
<i>Aggression from the public</i>	<i>ns</i>	<i>0,324</i> **	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>0,375</i> ***	<i>0,453</i> ***	<i>0,379</i> *	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>0,377</i> **	<i>0,398</i> ***	<i>ns</i>



<i>Tension with the public</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>Ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>0,311</i> ***	<i>ns</i>	<i>0,238</i> **	<i>0,238</i> **	<i>ns</i>
<i>Painful postures</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>- 0,314</i> **	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>
<i>Bullying</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>Ns</i>	<i>ns</i>	<i>0,520</i> ***	<i>0,612</i> ***	<i>0,612</i> ***	<i>0,612</i> ***	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>0,515</i> ***	<i>0,533</i> ***
<i>Thermal pollution</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>Ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>0,538</i> **	<i>ns</i>	<i>1,275</i> *	<i>0,780</i> **	<i>0,780</i> **	<i>ns</i>
<i>Noise pollution</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>Ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>0,387</i> *	<i>0,387</i> *	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>	<i>ns</i>

Table 2. Occupational-grade specific associations between organizational factors and sickness absences: results from multinomial logistic regressions (Estimated parameters)

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



## Discussion

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 to 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).

Unexpectedly, skill variety, monotony and flexible schedule don't affect absenteeism but in the same time, autonomy increases short-term absenteeism for blue-collar workers. We could therefore conclude that blue-collar workers have internalized the fact that as low skilled workers their job will be monotonous, without any autonomy. To test this explanation, we carry out an ordinal regression including all the dependant variables of the multinomial regression on absenteeism and with job satisfaction as an ordinal variable on the blue-collar workers sample. 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 measures are not reliable, Warnous et al. (1997) found the reliability of single-item measures of job satisfaction is 0,67 which is quite acceptable. The results show that autonomy and skill variety have a significant influence on job satisfaction (respectively,  $\beta = 0,109$ ,  $p < 0,10$  ;  $\beta = 0,109$ ,  $p < 0,01$ ). Monotony has no effect on job satisfaction. Two alternative explanations could be put forward. First, the organizational factors which influence job satisfaction and absenteeism are not the same and also job satisfaction is not a good mediator of the relationship between these work organization variables and absenteeism for blue-collar workers. An alternative explanation is that these variables have no effect on absenteeism of blue-collar workers in the short run but have an impact in the long run. As all variables were assessed in a cross-sectional design in our study, we can not test this alternative explanation.

Surprisingly, colleagues support increases blue-collar workers absenteeism. A similar result was also found by Rael et al. (1995), although these authors use "social support" as a dependant variable. Colleagues support seems not to increase absenteeism but rather to reduce presenteeism (which concerned workers who go to work although to be ill). Indeed, only 33,6 % of workers exposed to high colleagues support (high colleagues support = 4 on a scale from 1 to 4) and having bad health at work<sup>1</sup> have no absence (Chi-2 test is significant,  $p < 0,05$ ). At the opposite, 48,3 % of workers exposed

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<sup>1</sup> 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 you think that your job is stressful". Participants responded on a 10-point scale for the two last questions. To get a homogeneous scale, we

to low colleagues support (low colleagues support = 1 on a scale from 1 to 4) and having bad health at work have no absence (Chi-2 test is significant,  $p < 0,05$ ). Health at work is a strong antecedent of absenteeism (Bouville, 2008, 2009). Thus, colleague's support, in allowing solidarities between blue-collar, seems to reduce presenteeism in the short-run and thus absenteeism in the long run. Indeed, Bergström et al. (2009) showed that presenteeism increase absenteeism in the long-run.

Moreover, for clerks, flexible schedule increases temporary absence but decreases long-term absence. In the same way, for clerks, post rotation decreases short-term sickness absence but increases middle sickness-absence. These results underline that there is not only an occupation-specific model for sickness absence, but among occupational categories, there is a sickness absence categories-specific relationship with some organizational variables. This shows that it is relevant to distinguish between lengths of sickness absence.

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 for all occupational grades.

## Conclusion and implications for human resources management

The interest of the study is to examine the relations between a large set of organizational factors (including bullying, tension with the public, aggression from the public) and absenteeism after controlling for many variables<sup>2</sup> (size of the organization, work sector, gender, age, tenure, work status, social and occupation group, and position) and to compare the results among occupational grades. This has rarely been done before (Blank et al., 1995; Voss et al., 2001).

Work organization, working conditions and social relations at work, have significant associations with absenteeism for every occupational grades. Meanwhile, we showed specific-occupational relationship with absenteeism for some organizational variables. For instance, autonomy has a strong diminishing impact on absenteeism of lower white-collar. Colleagues support has no influence on three categories of sickness absence, except for blue-collar. Furthermore, we underline the fact that some organizational variables have an ambivalent effect on absenteeism. Indeed, for clerks, post rotation decreases short-term sickness absence but increases middle-term sickness absence.

Finally, we emphasize the importance of Human Resources Practices differentiated for occupational grades. For instance, a way to decrease absenteeism of lower white-collar would be to increase autonomy in their work. However whatever the occupational grade, managers have to strongly tackle workplace bullying and violence at work from the public and alleviate hierarchical control.

Several limitations of the study need to be discussed:

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*use this formula: Quartile ( $Q1+Q2+quartileQ3+quartileQ4$ ). The internal consistency was acceptable ( $\alpha = .60$ ). Values of this variable superior to the median are considered as "bad health at work".*

<sup>2</sup> *Indeed, this variables influence absenteeism (Harrison and Martocchio, 1998).*

(1) A “healthy worker effect” (Gollac et Volkoff, 2007) may have acted and led to an underestimation 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 recall that this leads to underestimation and not overestimation 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) Furthermore, as it is a cross-sectional study, we have only analyzed the short-term effects of organizational factors. However, it should have been interesting to study cumulative effects of organizational factors on absenteeism on a longitudinal design.

To conclude, further research could investigate in more details the occupation-specific impacts of organizational factors on absenteeism.

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## **HUMAN RESOURCE MANAGEMENT - PRACTICES, PERFORMANCE AND STRATEGY IN THE ITALIAN HOTEL INDUSTRY**

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### **Abstract**

The aim of this paper is to study the relationship between human resource management (HRM) and organisational performance in the Italian hospitality sector. In particular, it investigates the extent of adoption of HRM practices, the existence of formal HR strategies, and the degree of development of the HR function, in the Italian hotel industry. The findings aim to verify whether the effectiveness of HRM is contingent upon the approach to adopted business strategies and whether the hotels, which strategically formally apply HRM practices, outperform those with HRM practices outside a formal organisational strategy. The research finally expands on the underlying factors and managerial implications of the findings to conceptually interpret phenomena and prescribe actions. The paper includes a literature review on the subject, with special focus on the analysis of two frameworks: that of internal and that of external fit. In particular, the paper uses an adapted version of the Hoque's model (1999) in order to compare the Italian hotel industry with Hoque's (1999) sample of hotels in the UK; and Alleyne et al. (2006) survey of the Barbados hotels. The research was executed in two phases, which included firstly a selection process of a sample of 350 hotels, and secondly a questionnaire survey based on this sample. While HR practices are more prevalent in Barbados hotels than in the UK sample, for the Italian hotels the results were similar to those of the UK. External fit consequently emerged as a fundamental issue. The relationship between HRM and performance was shown to exist only among some hotels. With regards to internal fit, the results indicate higher performance where HRM is formally introduced as an inherent part of the organisational strategy. Additionally the research indicates a change in the role of HRM in the business context, from a simple HR organisation function to a key strategic marketing tool. In the relationship between HRM practice and performance it is difficult to be certain which is the cause and which is the effect of the correlation. Additionally, it must be noted that the focus of the research was on larger hotels, whose adoption of HRM practices is considerably greater than for smaller hotels. The results therefore, are clearly not representative of the hotel industry as a whole. The research findings stress the importance of incorporating HRM in the strategic organisational context, as opposed to applying it as an independent function. In line with most

of the mainstream HRM and internal marketing literature, this research's findings support the need for a comprehensive approach to management, within a wider methodically developed strategic context, as the means to long term business success. The paper, further to its specific findings, continues to interrelate its theoretical and empirical findings, and to conceptually develop these towards practical application; both at the organisational and the industry/collective levels. This research is a valuable contribution to knowledge on the subject for three main reasons: it is the first study of its kind regarding the Italian hospitality industry; it makes use of past studies to make additional comparisons of international value; and finally, it interrelates and extrapolates on the findings to offer practical prescriptive findings to both individual enterprises and collective stakeholders.

**Keywords:** Human Resource Management (HRM), Strategy, Marketing, Hospitality Industry, Hotels, Organizational Performance, Italy.

## Introduction

In order to compete in an increasingly competitive business world, corporations have modified their internal structure and processes to become more lean and flexible. This enables them to react quickly to the incessantly changing competitive conditions and to adapt their businesses accordingly. This is also reflected in the way corporations seek to achieve competitive advantage, moving their attention from "hard" elements, such as privileged access to resources (e.g. capital), to "softer" elements, such as the management of human resources, innovation, etc. (Foss-Laursen, 2000; Laursen-Mahnke, 2000; Leoni-Cristini-Mazzoni-Labory, 2000; Wilkinson, 2000; Valdani, 2000; Ham-Kleimer, 2002)

The relationship between human resources and performance has been widely researched over the last twenty years, especially in the US (Arthur 1994; Osterman, 1994; Huselid, 1995; Macduffie, 1995; Huselid, 1995; Koch et al., 1996; Lazear 1996; Ichniowski et al., 1999) and in Great Britain (Guest et al., 1994; McNabb et al., 1997; Guest, 1999; Hiltrop, 1999), where a number of research studies have allowed us to understand this relationship. The main outcome of these studies has been the recognition that human resource management has considerable impact on an organisation's capacity to be competitive and can be considered a source of sustainable, long-term competitive advantage (Delery et al., 1996; Guest, 1997; Boselie et al., 2001).

Moreover, authors describe the impact of "high-commitment management" (Wood et al., 1995; Wood et al., 1998) and "high-performance work practices" (Huselid, 1995) on organizations. Most researchers, however, focus their attention on the manufacturing industry (Arthur, 1994; MacDuffie, 1995), though more recently it is possible to find studies related to services, and even particularly referring to the hospitality sector (Boselie et al., 2003; Lockyer et al., 2004; Maxwell, 2004; Tsaur et al., 2004; Boella et al., 2005; Alleyne et al., 2006a; Alleyne et al., 2006b; Chand et al., 2007; Cho et al., 2006; Davidson et al., 2006; Knox et al., 2006; Namasivayam et al., 2006; Connolly et al., 2007; Nickson, 2007; Urbano et al., 2007; Watson et al., 2007).



Given the heterogeneity difficulties characterising the service sector, it is very hard for researchers to generalize data from different types of service organisations like financial enterprises, retailing operations, transport operations and the hospitality sector. Moreover, the service sector is probably undergoing the greatest changes in terms of product, process and customer behaviour (Thrassou and Vrontis, 2008), and the role of HRM cannot be generalised even within the sector itself. This paper, therefore, presents an industry-specific research, rather than an analysis of the services sector as a whole, investigating the relationship between Human Resource Management and performance, within the Italian hotel industry.

## **Theoretical background**

### **Generic Human Resource Management Research**

The study of HRM is concerned with the selections that organisations make, from among the myriad of policies, practices and structures for managing employees (Sisson, 1990; Boxall et al., 2003; Boselie et al., 2005). The combination of chosen practices is geared towards improving organisational effectiveness and hence better performance outcomes, in order to enable the organization to achieve its business goals (Wright et al., 1992; Delery et al., 1996).

A number of trends have emerged in the field of HRM over the past few years. A mainstream one relates to the nature of the interaction between HRM and performance (Arthur, 1994; Guest et al., 1994; Kalleberg et al., 1994; Huselid, 1995; MacDuffie, 1995; Snell et al., 1995; Delery et al., 1996; Boselie et al., 2001; Guthrie, 2001), showing a statistically significant linkage between HRM practices and some measures of organizational performance. In the same context, Harney and Dundon (2006) study HRM practices in small and medium size enterprises, finding that HRM was not the coherent set of practices typically identified in the literature, but rather was often informal and emergent. In the latter context, Thrassou and Vrontis (2006) present the need for HRM to be incorporated in the wider strategic functions of HRM, also retaining nonetheless a much needed flexibility and adaptability.

Another major research trend was the endeavour to understand the mechanisms through which this relationship takes place. Authors such as Becker and Gerhart (1996), Dyer and Reeves (1995), Guest (1997), Wright and Gardner (2003) and Dowling et al., researched some of the mediating relationships that exist between the HRM practices and organizational performance. Other authors, such as Ferris et al (1999), Guest (1997), Rogers et al (1998) Wood (1999), Gerhart (1999), Gerhart et al (2000a and 2000b) and Wright et al (2001), studied the problem from a theoretical point of view reaching various and frequently conceptual conclusions.

A final main trend is the more recent interest in taking a multi-level and multi-dimensional approach. Wright and Boswell (2001) reviewed the HRM literature and found that past researches on the subject can be differentiated along two dimensions: firstly, whether the focus was on single or multiple practices; and secondly, regarding the unit of analysis, specifically the individual versus the group or organization. Ostroff and Bowen (2000) and more recently Bowen and Ostroff (2004) have

developed the most extensive multi-level model of HRM, arguing that HR practices serve as communication mechanisms signalling employees to engage in certain behaviors.

Reviewing all these works, their common thread lies in the recognition that human resource management has an important impact on an organisation's capacity to be competitive, that it can be a competitive advantage in itself and that it is in essence, not just a process, but an investment.

The methodological deficiency of referring to past research, in this paper's context though, is the fact that one cannot blindly assume that these generic findings are necessarily transferable to the hospitality industry. This research therefore, has expanded its theoretical review to the existing, albeit much fewer, industry-specific works.

### **HRM and the Hospitality Sector**

The hotel industry has been historically renowned for its poor pay, inferior employment conditions and deficient adoption of HR practices. The industry has largely relied on a low cost, numerically flexible and disposable workforce. Increasingly, however, there have been debates concerning the extent to which managers in the hotel industry are embracing high commitment HRM and functionally flexible work practices. Interest in HRM within the hospitality sector has been increasing since the 1990s, with the first studies, showing a lack of interest among managers in HRM practices (Hales (1987), Guerrier et al, (1989), Lockwood et al(1989), Price (1994) and Lucas (1995, 1996). Later research though, showed that the interest among hotel industry managers on HRM practices, which could help organizations in improving effectiveness and hence better performance outcomes, was visibly increasing (Harrington et al., 1996; Watson et al., 1996; Gilbert et al., 1997; Hoque, 1999). However, it was only during the 2000s that it was possible to find specific evidence of the systematic use of HRM practices within the hospitality sector.

Boselie et al. (2003) gathered empirical data on the effectiveness of HRM in the Netherlands, including the tourism industry, finding a lower effect of HRM than in other sectors. In the same context, Lockyer and Scholarios (2004) consider the nature of "best practice" recruitment and selection in the Scottish hotel sector showing a reliance on informal methods in smaller hotels and structured procedures, including references, application forms and panel interviews in larger and chain hotels.

Knox and Walsh (2006), focusing on Australian hotels, find evidence that while hotel workplaces in general continue to be associated with high levels of numerical and temporal flexibility and greater informality of HR policies, larger luxury hotels were adopting more systematic employee management techniques and strengthening their internal labour markets through functional flexibility initiatives. Urbano and Yordanova (2007) study the determinants of the adoption of HRM in tourism SMEs. They find that the adoption of HRM practices is positively associated with the presence of an HRM department. Also, SMEs in which the person responsible for HRM has previous experience in similar positions, are greater adopters of HRM practices. Finally, they find that SMEs, which cooperate with other organizations, are more likely to implement HRM practices.

Tsaur and Chun Lin (2004) empirically explore the relationship among HRM practices, service behaviour and service quality among tourist hotels; discovering that HRM practices partially have a direct effect on customer perceptions of service quality and an indirect effect through employees' service behaviour. Additionally, Maxwell et al. (2004) investigate the nature of, and relationship between, a quality service initiative and the concept of strategic human resource development, and find that the quality initiative is acting as a catalyst for a strategic approach to human resource development to emerge. Namasivayam et al (2006) examine the relationships between compensation (direct and indirect) practices in hotel organisations and their performance. The results show that in the case of management employees, direct compensation fully mediated the relationship between indirect compensation and hotel performance.

Cho et al. (2006) focus the attention on the impact of HRM practices on hospitality firms' performance. They investigate the relationship between twelve different HRM practices and organizational performance is measured by turnover rates for managerial and non-managerial employees, labor productivity, and return on assets. The results indicated that companies implementing HRM practices are more likely to experience lower turnover rates for non-managerial employees. In the same direction, Watson et al. (2007) explore different levels of line manager perspectives, namely strategic and first-line, and their role in HRM and human resource development; and identify enablers of and barriers to devolving HR to line managers. They find a number of points of divergence in opinions, implying that there is potential for organisations to secure greater engagement of their first-line managers in HR roles. Focusing on Irish hotels, Connolly and McGing (2007) show that Dublin-based hotels display some of the human resource practices associated with high performing work practices. There are, however, very low levels of employee participation, which many authors argue are the cornerstone of high performance practices.

Finally, Chand and Katou (2007) focus their research on two interlinked aspects of the hotel industry in India: whether specific characteristics of hotels exist that affect organisational performance; and whether some HRM systems affect organisational performance. They find that hotel performance is positively associated with hotel category and type of hotel (chain or individual). Furthermore, hotel performance is positively related to the HRM systems of recruitment and selection, manpower planning, job design, training and development, quality circle, and pay systems.

### **Research Aims, Value and Limitations**

The aim of this research is to investigate the relationship between HRM and performance in the Italian hospitality sector, as well as its practical implications.

Towards this aim, four objectives have been set:

- To undertake a literature review that will provide the theoretical context, both with regards to generic and specific to the hotel industry HRM knowledge.
- To measure the extent of the adoption of HRM, the existence of a formal HR strategy, and the degree and nature of the development of the HR function in the Italian hotel industry.

- To compare it with Hoque's sample (1999) of hotels in the UK and Alleyene's et al. survey (2006) in the Barbados hotels.
- To combine and interrelate the findings of the theoretical and empirical research and analyses to conceptually identify underlying factors, managerial implications and practical applications.

This research is a valuable contribution to knowledge on the subject for three main reasons: it is the first study of its kind regarding the Italian hospitality industry; it makes use of past studies (Hoque, 1999; and Alleyene et al, 2006) to make additional comparisons of international value; and finally, it interrelates and extrapolates on the findings to offer practical prescriptive findings to both individual enterprises and collective stakeholders.

The limitations of the research relate to the difficulty in distinguishing between cause and effect in the correlation between performance and HRM practices. Additionally, it must be noted that the focus of the research was on larger hotels, whose adoption of HRM practices is considerably greater than for smaller hotels. The results therefore, are clearly not representative of the hotel industry as a whole.

Towards verifying whether the effectiveness of HRM is contingent upon the approach to business strategy that has been adopted, this paper has additionally posed one research question: Is External Fit Important Within the Hospitality Sector? Furthermore, this paper tests whether the hotels that introduce HRM as a formally supported package of strategic practices outperform the hotels which do introduce HRM, but not as a part of the organizational strategy. Consequently, a second research question has been generated: Is Internal Fit Important Within the Hospitality Sector?

## **Methodology**

### **Data Sources**

The data used are taken from "Rapporto sul sistema alberghiero in Italia" edited by Federalberghi in 2007. The research was conducted in two separate phases. In the first phase a sample of 350 hotels was selected, including only those with a minimum of 65 bedrooms, which are representative of the region and which have a star rating of 3 or more (on a rising scale of one to five). In the second phase a structured questionnaire was sent to the 350 hotels of the sample. 104 hotels responded with acceptably completed questionnaires (a successful response rate of 29.71 per cent).

### **Method of analysis**

This research applies the same model of analysis used by Hoque (1999) and by Alleyene et al (2006). The model is consequently synthesized as follows:

### **Dependent Variables**

To define HRM practices, the questionnaire asked for the rating of specific HR outcomes: the commitment to the organization of lower-grade staff, the level of job satisfaction of lower-grade staff, the flexibility of staff, the ability of staff to move between jobs as the work demands, the quality of

work of lower-grades staff, and the quality of staff currently employed; on a scale of one (very low) to five (very high).

Then, to define the performance, the questionnaire asked for the rating of specific performance outcomes: how well does labour productivity compare with the hotel industry average, how does quality of service compare with the hotel industry average, how is the financial performance compared with the hotel industry average; on a scale of one (very low) to five (very high).

### **Independent Variables**

Table 1 presents the specific measures of HRM used to test the relationship between HRM and performance.

### **Towards Answering the Research Questions**

#### **Question 1: Is External Fit Important Within the Hospitality Sector?**

According to Schuler and Jackson (1987) and Hoque (1999), HRM should prove effective only within hotels which emphasize a quality-enhancing or innovative approach to business strategy, and should prove ineffective where the hotel's business strategy is focused on cost-cutting or price competition. Consequently, in Hoque's model (1999), respondents are asked to choose the two features that best describe their approach to business strategy. The choices were price, quality, and cost control, responsiveness to customer needs, advertising/marketing and providing a distinctive service.

On the base of the answers, it was possible to split the sample into three categories: (a) hotels that focus their business strategy on cost minimization or price competition; (b) hotels that focus their business strategy on quality enhancement (c) hotels that do not have a clear approach to their business strategy.

The measure of HRM used in this analysis is cumulative, in order to allow the ranking of the hotels from the "most HRM practices adopter" to the "least HRM practices adopter" on a rank from 0 to 21 (see Table 1; 0 = no HRM practices; 21 = all HRM practices adopted). By splitting the sample in the three categories described above, and then regressing this aggregate HRM variable on each of the dependent outcome variables, it is possible to verify the effectiveness of HRM in each of the categories.

#### **Question 2: Is Internal Fit Important Within the Hospitality Sector?**

Of the hotels adopting HRM practices, those introducing HRM practices as a strategic part of their own business strategy (Hoque, 1999, says 'as a synergistic package of mutually supporting practices... as a coherent, institutionally supported synergistic package') should outperform hotels which introduced HRM practice in a more casual and independent operating manner.

According to Hoque (1999), it is possible to split the sample into three categories: (1) 'strategic HRM' hotels, which are those with above-average (14 or more) HRM practices, strategically integrated with each other; (2) 'non-strategic HRM' hotels, which are those with above-average (14 or

more) HRM practices, but not strategically integrated; (3) 'low-HRM' hotels, which are those with below-average (fewer than 14) adoption of HRM practices.

If internal fit is important, the "strategic HRM" hotels should outperform the others.

HRM practice
<p><b>Terms and conditions</b></p> <p><i>Harmonized terms and conditions between management and non management staff</i></p> <p><i>Single status for all staff</i></p> <p><i>Internal promotion the norm for appointments above the basic levels</i></p> <p><i>No compulsory redundancy</i></p> <p><b>Recruitment and selection</b></p> <p><i>Trainability as a major selection criteria</i></p> <p><i>Use of psychological tests as the norm for the selection of all staff</i></p> <p><i>Deliberate use of realistic job previews during recruitment and selection</i></p> <p><i>A formal system for communicating the values and systems in the company to new staff</i></p> <p><b>Training</b></p> <p><i>Deliberate development of a learning organization</i></p> <p><i>An explicit policy requiring all staff to spend a specified minimum period annually in formal training</i></p> <p><b>Job design</b></p> <p><i>Flexible job descriptions that are not linked to one specific task</i></p> <p><i>Deliberate design of jobs to make full use of workers' skills and abilities (i.e. use of job enrichment and/or autonomous work groups)</i></p> <p><i>Work organized around team-working for the majority of staff</i></p> <p><i>Staff involvement in setting performance targets</i></p> <p><b>Quality issues</b></p> <p><i>Production/service staff responsible for their own quality</i></p> <p><i>A majority of workers currently involved in quality circles or quality improvement teams</i></p> <p><b>Communication and consultation</b></p> <p><i>Regular use of attitude surveys to obtain the views of staff</i></p> <p><i>A system of regular, planned team briefing or cascade of information from senior management to the lower grades / shop-floor during which work stops</i></p> <p><i>All staff are informed about the market position, competitive pressures and establishment and company performance as a matter of course</i></p> <p><b>Pay systems</b></p> <p><i>A merit element in the pay of staff at all levels</i></p> <p><i>Formal appraisal of all staff on a regular basis at least annually</i></p>

Table 1: HRM Practices Used within the Analysis

Source: Hoque (1999).

## Results and Analysis

### External fit

Table 2 shows the presence of a link between HRM and all of the HR outcome measures. In-depth analysis of the sub-samples makes it possible to find more differences. For “Others”, the link is perfectly replicated; for “Quality-enhancer” the link is replicated, with the only exception being quality of staff; otherwise, for “Cost-reducers” it is possible to find a link only for the HR outcomes of organizational commitment, job satisfaction and staff flexibility. So, HRM would seem to be more effective among the quality-enhancer hotels.

<i>Organizational commitment</i>				
	<i>All hotels</i>	<i>Cost-reducers</i>	<i>Quality-enhancer</i>	<i>Others</i>
<i>HRM</i>	<i>0.016 (0.011)</i>	<i>0.028 (0.030)</i>	<i>0.123 (0.021)</i>	<i>0.105 (0.010)</i>
<i>n</i>	<i>104</i>	<i>24</i>	<i>51</i>	<i>29</i>

<i>Job satisfaction</i>				
	<i>All hotels</i>	<i>Cost-reducers</i>	<i>Quality-enhancer</i>	<i>Others</i>
<i>HRM</i>	<i>0.101 (0.033)</i>	<i>0.018 (0.021)</i>	<i>0.014 (0.034)</i>	<i>0.021 (0.042)</i>
<i>n</i>	<i>104</i>	<i>24</i>	<i>51</i>	<i>29</i>

<i>Staff flexibility</i>				
	<i>All hotels</i>	<i>Cost-reducers</i>	<i>Quality-enhancer</i>	<i>Others</i>
<i>HRM</i>	<i>0.04 (0.015)</i>	<i>0.021 (0.046)</i>	<i>0.110 (0.032)</i>	<i>0.135 (0.047)</i>
<i>n</i>	<i>104</i>	<i>24</i>	<i>51</i>	<i>29</i>

<i>Ability to move staff between jobs as required</i>				
	<i>All hotels</i>	<i>Cost-reducers</i>	<i>Quality-enhancer</i>	<i>Others</i>
<i>HRM</i>	<i>0.081(0.012)</i>	<i>0.078 (0.134)</i>	<i>0.089 (0.022)</i>	<i>0.064 (0.043)</i>
<i>n</i>	<i>104</i>	<i>24</i>	<i>51</i>	<i>29</i>

<i>Quality of work</i>				
	<i>All hotels</i>	<i>Cost-reducers</i>	<i>Quality-enhancer</i>	<i>Others</i>
<i>HRM</i>	<i>0.066 (0.018)</i>	<i>0.095 (0.124)</i>	<i>0.043 (0.043)</i>	<i>0.110 (0.032)</i>
<i>n</i>	<i>104</i>	<i>24</i>	<i>51</i>	<i>29</i>

<i>Quality of staff</i>				
	<i>All hotels</i>	<i>Cost-reducers</i>	<i>Quality-enhancer</i>	<i>Others</i>
<i>HRM</i>	<i>0.044 (0.021)</i>	<i>0.044 (0.115)</i>	<i>0.068 (0.118)</i>	<i>0.049 (0.026)</i>
<i>n</i>	<i>104</i>	<i>24</i>	<i>51</i>	<i>29</i>

Table 2: The Relationship between HR Outcomes and HRM in Italian hotel industry

Notes: Ordered probit analysis  
Coefficients given (sig. in brackets).

Table 3 provides evidence of the relationship between HRM Practices and Organizational Performance in the Italian hotel industry. It is possible to find a strong relationship between the extent to which HRM is used and all three performance measures. Analyzing the sub-samples, however, it is possible to find a relationship only for quality-enhancer (with the exception of labour productivity) and Others. So, there is no evidence that the adoption of HRM practices improves performance where hotels put a premium on cost control within their business strategy.

Finally, it is possible to assume that the results positively answer question 1 i.e. that the effectiveness of HRM is dependent upon congruence with business strategy. A positive correlation between the cumulative HRM variable and effectiveness exists only within quality-enhancer and 'other' hotels. Where hotels emphasize cost control or price competition, there is no relationship.

### Internal fit

Here it should be possible to find evidence on whether hotels introducing HRM practices as a strategic part of their own business strategy outperform hotels which introducing HRM practices independently.

Table 4 provides evidence that "strategic HRM" hotels routinely outperform the "low-HRM" hotels across all of the HR outcome measures. On the contrary, the "non-strategic HRM" hotels outperform the "low-HRM" hotels only where organizational commitment is concerned.

<i>Labour productivity</i>				
	<i>All hotels</i>	<i>Cost-reducers</i>	<i>Quality-enhancer</i>	<i>Others</i>
<i>HRM</i>	0.02 (0.021)	0.078 (0.123)	0.054 (0.131)	0.141 (0.042)
<i>n</i>	104	24	51	29

<i>Quality of service</i>				
	<i>All hotels</i>	<i>Cost-reducers</i>	<i>Quality-enhancer</i>	<i>Others</i>
<i>HRM</i>	0.087 (0.011)	0.012 (0.121)	0.134 (0.040)	0.081 (0.021)
<i>n</i>	104	24	51	29

<i>Financial performance</i>				
	<i>All hotels</i>	<i>Cost-reducers</i>	<i>Quality-enhancer</i>	<i>Others</i>
<i>HRM</i>	0.091 (0.019)	0.049 (0.141)	0.081 (0.032)	0.121 (0.030)
<i>n</i>	104	24	51	29

Table 3: The Relationship between HRM Practices and Organizational Performance in Italian hotel industry

Notes: Ordered probit analysis,  $R^2$  is pseudo, Coefficients given (sig. in brackets).

The results concerning performance outcomes are presented in Table 5, which shows the impact of internal fit on performance. Whereas the "strategic HRM" hotels outperform the "low-HRM" hotels in terms of labour productivity, quality of service and financial performance, the "non strategic



HRM” hotels outperform the “low-HRM” hotels only on financial performance. The results here confirm the importance of introducing HRM practices as part of an institutionally strategic package.

### Further and Overall Findings

The main goal of this paper was to investigate the relationship between HRM and performance in the Italian hospitality sector, focusing the analysis on two frameworks: that of internal and that external fit. Further analysis was undertaken to compare this research’s results with those of the UK hotels’ research by Hoque (2009) and those of the Barbados hotels research by Alleyene et al. (2006).

	<i>Organizational commitment</i>	<i>Job satisfaction</i>	<i>Staff flexibility</i>
<i>‘Strategic HRM’</i>	0.822 (0.020)	0.788 (0.011)	0.440 (0.024)
<i>‘Non strategic HRM’</i>	0.491 (0.012)	0.521 (0.311)	0.320 (0.120)
<i>n</i>	68	68	68

	<i>Ability to move staff between jobs</i>	<i>Quality of work</i>	<i>Quality of staff</i>
<i>‘Strategic HRM’</i>	0.610 (0.020)	0.910 (0.030)	0.710 (0.015)
<i>‘Non strategic HRM’</i>	0.410 (0.121)	0.010 (0.310)	0.410 (0.210)
<i>n</i>	68	68	68

Table 4: Internal Fit and HR Outcomes

Notes: Ordered probit analysis, Coefficients given (sig. in brackets). ‘Strategic HRM’ = above-average no. of HR practices used and hotel has formal strategy. ‘Non strategic HRM’ = above-average no. of HR practices used but hotel does not have formal strategy. Omitted category = below-average no. of HR practices used (‘low HRM’)

	<i>Labour productivity</i>	<i>Quality of service</i>	<i>Financial performance</i>
<i>‘Strategic HRM’</i>	0.590 (0.010)	0.810 (0.032)	0.810 (0.022)
<i>‘Non strategic HRM’</i>	0.325 (0.345)	0.224 (0.129)	0.630 (0.010)
<i>n</i>	68	68	68

Table 5: Internal Fit and Performance Outcomes

Notes: Ordered probit analysis, Coefficients given (sig. in brackets). ‘Strategic HRM’ = above-average no. of HR practices used and hotel has formal strategy. ‘Non strategic HRM’ = above-average no. of HR practices used but hotel does not have formal strategy. Omitted category = below-average no. of HR practices used (‘low HRM’)

Alleyene et al (2006) results showed an adoption of HR practices in Barbados hotels that is more prevalent than in the UK sample of Hoque’s (2009) work. This research has found that for the Italian hotels the results are similar to the UK ones. For Barbados, with respect to the existence of a formal HR strategy, the results were mixed. Additionally they show that in many respects Barbados hotels are ahead of their UK counterparts in the development of the HR function.

External fit therefore, emerges as a fundamental key factor. A relationship between HRM and performance exists only among hotels emphasizing the importance of quality enhancement and

among hotels in the “other” category. HRM proves ineffective where cost control is seen as the key to business strategy. Looking at internal fit, there is strong evidence that higher performance exists where HRM is introduced as a strategic part of the individual hotel business strategy. The results here add to the conclusions reached by Ichniowski et al. (1994), MacDuffie (1995) and Hoque (1999).

## **Conclusions, Discussion and Managerial Implications**

The research has provided evidence that the trend of increasing importance of HRM is valid also in the case of the Italian hotel industry. Moreover, and much in line with past generic research findings, it was found that formalised HRM in the context of a wider business strategy is even more successful. The results are not surprising as the literature review has shown that similar findings have been produced regarding other industries and/or countries.

The research results though, inevitably give rise to a number of interesting and critical questions:

- (1) Beyond, classical HRM theories, are there any additional reasons why strategically formalised HRM is becoming increasingly important?
- (2) Why is strategically formalised HRM more effective than independently adopted HRM?
- (3) What are the underlying causes, at the environmental and consumer behaviour levels, that instigate these phenomena?
- (4) What are the managerial implications of the findings?
- (5) Are there any other implications at the collective and/or industry levels, or in relation to other stakeholders?

These questions obviously demand for empirical research to properly test and validate any answers/hypotheses ventured. Nevertheless, through the interrelation of its empirical and theoretical findings, as well as through further literature review and extrapolation, this research concludes by venturing a conceptual approach to answering these questions.

Regarding question 1, the answers appears to lie primarily in the marketing interpretation of the phenomenon. Specifically, in the services sector, and especially in high-contact services, such as this research’s focus, HRM is increasingly related to the organisation’s ability to better serve its customers. Beyond the obvious explanations of this fact, relating to better employee quality, efficiency/effectiveness, transferability, improved service, customer satisfaction etc (Lovelock and Wirtz, 2011) one needs to ‘zoom out’ and see the forest rather than the individual trees. The human resource for high-contact services is not simply important for the organisation; it is the organisation. The interpretation of this research’s results is more valid if one reverses the perspective and looks at the organisation through the eyes of the customer, instead of the more usual opposite. From this perspective, and excluding tangibles, human resource constitutes the service’s facade and consequently the measure of service satisfaction (Zeithaml et al., 2006). Moreover, the human resource, is the means to building an identity for the service, a brand image, positioning, and overall creating the perceptions that ultimately form and solidify customers’ evaluations, attitudes and

beliefs regarding individual organisations (Thrassou, 2007). Not surprisingly therefore, the more attention is being paid to HRM the better the results of the hotel in terms of performance.

Regarding question 2, the answer lies in the elaboration of the previous point. Since HRM's value is closely related to the marketing aspects of the business, it is only natural that HRM tactics and processes can never reach their full potential if designed and applied independently. On the other hand, HRM designed as part of a wider strategy, that considers all business aspects, including marketing, branding and of course finance etc, is naturally more successful. At the same time, strategically formalised HRM allows for decisions to be taken subsequent to methodical and systematic environmental analysis, while communications and actions can be more effective as part of a wider formalised strategy (Kotler et al., 2005; Smith and Taylor, 2006).

Regarding question 3, though business theory as utilised in the above two points explains the phenomena in terms of business practice, it does not unveil their underlying causes. The latter can be understood through a study of the development of consumer behaviour in the services sector, a subject largely outside the scope of this paper. Nonetheless, to touch upon the root-cause of these phenomena one needs to refer to existing research that sheds valuable light on the subject. Of primary value to this end is the conceptual framework for a business-consumer relationship (Vrontis and Thrassou, 2007), as well its marketing communications application (Thrassou and Vrontis, 2009). The authors show that contemporary consumer behavior increasingly shifts value from the tangible to the intangible and from the pragmatic to the perceived service. In this context the value of the human factor and consequently of HRM, are also becoming increasingly important. In the same context, the input of the human factor in the construction of subjective perceptions of service value stretches far more than its functional capability to fulfill its purpose.

HRM therefore, becomes a key factor, not only of the hotel's functional abilities, but also of the customers' impressions, attitudes, beliefs and ultimately of the brand image and value itself. To better use the authors' term in this context: HRM is a key factor of 'perception management' and 'branding'; themselves being correspondingly the primary strategic marketing 'process' and 'vehicle' towards the terminal strategic marketing aims of: shift of focus of marketing communications from the products and their attributes to the product experience, the product intangibles and, in essence, service higher-order value additions

Regarding question 4, the managerial implications are obvious in terms of 'what' these are, but less obvious in terms of 'how'. In terms 'what' these are, the research findings are direct and explicit: managers need to adopt strategically formalised HRM practices, which are becoming increasingly important, and in any case more effective than independently adopted HRM practices. Concerning the 'how', it is again outside this research's scope to enter the field of internal HRM. It is appropriate though, to point towards a number of steps that appear to be indicated (not proven though) by this research's findings: (a) hotel managers need first of all to understand and appreciate the value of strategically formalised HRM, as the realisation of the fact appears to be a greater obstacle to its adoption than the process itself, (b) hotel managers need to have or gain the knowledge to develop

and apply a comprehensive strategy, since managers with essentially experiential knowledge tend to deal with management functions independently and without interrelating them and incorporating under a wider strategy, (c) HRM in services starts from ensuring that the hotel has the right people for the right positions and not simply by (re)organising existing HR, (d) this may demand for painful decisions regarding existing HR and in itself poses another obstacle, finally, (e) where managers do not have the knowledge/ability to undertake the responsibility of developing strategically formalised HRM, the option of external consultants must be considered, either for the HRM function alone or even for the comprehensive strategic design of the hotel(s).

Regarding question 5, the degree of utilisation of this research's findings at a collective/industry level is proportional to the degree to which the industry and related authorities generally collaborate with each other. In most regions of Italy and elsewhere, there is substantial collaboration towards the overall improvement of services offered at a local and regional level. In this context it is easy to see that there is considerable room for action. Firstly, related authorities and associations can educate and train managers to adopt the above listed points. Secondly, the same entities may organise or monitor the training of hotel HR at all levels. Thirdly, and since strategic planning surfaces as a key issue, authorities and associations may assist in the planning of local/regional tourism strategies that give specific direction and even assistance to individual hotels' strategic business planning. For many localities, tourism is a primary economic activity and it is expected that all stakeholders shall collaborate towards an integrated and comprehensive design regarding all related businesses and of course, especially hotels.

Overall, this research has produced findings which, on the one hand answer specific key questions regarding hotel HRM performance, and on the other, interrelate theoretical with empirical findings to reach more generic conclusions of practical value. The research has reinforced the belief that HRM must be developed in a strategically formalised manner as the means to improved performance. More importantly perhaps, it has put forward the argument that HRM must be viewed, not simply as the means to organising human resources in a better way, but as a key function of strategic marketing design, and consequently, of competitive success.

## Biography

**Stefano Bresciani** received a Ph.D. in Business Administration in 2003. He has been working as Research Scholar in the ESCP-EAP – London in 2006. He is currently a Researcher in Business Management at the Faculty of Economics, University of Torino, where he teaches Business Management and Innovation Management. He is performing research integrated with the Department of Business Administration of the Faculty of Economics of the University of Torino. His main areas of research include business management, innovation management and strategic management.

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## AN ANALYSIS OF DYSFUNCTIONS AND BIASES IN FINANCIAL PERFORMANCE MEASURES

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### Abstract

Financial measures are often criticised for being short-term orientated. Modern performance measurement systems hence focus not only on financial measures but try to plan and control the firm in a more balanced way by using other measures as well. We look at some important problems with financial measures and try to find solutions to solve the problems. Based on literature review we found the main obstacles by using financial measures and solutions to get rid of them. The main problems of financial measures seem to be age bias, short-termism and sub-optimisation. All of them can be avoided by doing the right adoptions or using different methods. The paper shall give a topical, general overview to create an empirical foundation for further research activities in this domain. Instead of criticising financial measures we show strategies to overcome their obstacles.

**Keywords:** Management accounting, Financial Measure, Performance Measurement

### Introduction

Traditionally, performance measurement focused on financial measures (Langfield-Smith, Thorne & Hilton 2009, p. 691; Schreyer 2007, p. 26). That was until the 1980s when there was a growing realisation that traditional performance measures would no longer fulfil the requirements of new competitive realities such a need for flexibility or rapid response to customer expectations (Kennerley & Neely 2003, p. 214; Chow & Van der Stede 2006, p. 1). Therefore, modern performance measurement systems (PMS) place a greater emphasis on a balance between financial and non-financial measures (Langfield-Smith, Thorne & Hilton 2009, p. 694).

Performance measurement evolved from various improvement methods, e.g. Total Quality Management, just in time production, Business Engineering. At the very early stage of performance management tools like performance pyramid (Lynch & Cross 1995), Quantum-Performance-Measurement-Model (Hronec 1996), the French Tableau de Bord (e.g. Lebas 1994) and of course Kaplan's and Norton's Balanced Scorecard appeared on the market (1996). The origin of the Tableau de Bord dates back to the 1960s (Lebas 1996). One has to differentiate between performance measurement and performance management. Nowadays the Balanced Scorecard probably is the most common tool fulfilling the needs of management and measurement.

Surveys among German small and medium sized companies (more than 90% of all companies in Europe belong to that category) show that only about 10% of them actually are using a performance measurement system not only focussing on financial measures (Günther & Gonschorek 2006, Krol 2009, Britzelmaier, Thiel & Kraus 2009).

On the other hand financial performance measures have been heavily criticised by academics and practitioners (Langfield-Smith, Thorne & Hilton 2009, pp. 692-694; Neely, Gregory & Platts 1995, p. 106; Tangen 2004, pp. 726-727). Despite the weaknesses of financial measures, modern concepts of performance measurement can (of course) not completely renounce on financial measures (Horváth 2006, p. 562). As Chow & Van der Stede (2006, p. 7) state, one needs to “be cautious about popular claims that non-financial measures are superior to traditional financial measures across the board. Rather than being an either/or choice, the challenge is to select the optimal combination”.

The lack of use of other than financial measures in industry in contrast to the critics leads to several questions:

- Why only a small portion of companies does use other than financial measures?
- What are the biggest obstacles of financial measures?
- Is it possible to overcome these obstacles?

This paper will not give the answer to question 1 but might create the wish to do further research on that topic. In future surveys question like “Why don’t you use tools like Balanced Scorecard?” could be included.

To find answers to the remaining two questions one has to answer question 2 first. This has been done in this paper by literature review. Age bias, short-termism and sub-optimisation seem to be the most important obstacles (Holler 2009, p. 76; Merchant & Van der Stede 2007, p.436; Weber, Bramsemann, Heineke, & Hirsch 2004, p. 90).

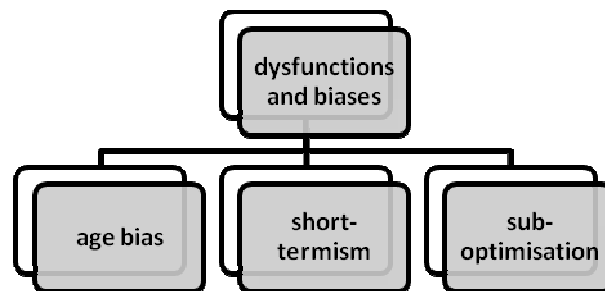
After having defined the main problems solutions can be discussed. This will lead to answers to question 3.

## **Dysfunctions and biases**

### **Overview**

A common point of criticism against financial measures is that they have inherent dysfunctions and biases and encourage a behaviour that is contrary to business objectives or strategies. The term ‘measurement dysfunction’ means that “the measurement process itself contributes to behaviour contrary to what is in the best interest of the organisation” (Spitzer 2007, p. 22). A bias is a systematic error in measurement that is constantly made since it is not originated in the data but in the measurement design (Dieck 2007, pp. 28-29).

Subsequently, the following common dysfunctions and biases will be discussed:



## Age bias

### Problem

This bias occurs in accounting return measures – for instance Return on Investment (ROI) – and residual income measures such as Economic Value Added (EVA). The reason is that they both include a capital figure. Return is calculated by dividing profit by capital. Residual income is calculated by deducting the cost of capital – nowadays usually the weighted average cost of capital (WACC) multiplied by the invested capital – from profit:

$$\text{return} = \frac{\text{profit}}{\text{capital}}$$

$$\text{residual income} = \text{profit} - \text{wacc} * \text{capital}$$

The bias is originated in accounting depreciation. Depreciation is usually ‘front-end loaded’ (straight-line or declining depreciation) while ‘back-end loaded’ depreciation schedules which would alleviate the problem are not permitted according to most regulations (Holler 2009, p. 76). Depreciation leads to a decreasing book value of capital if no further investments are made which has the following effects on financial measures: In return measures the denominator decreases over the life cycle of an investment, i.e. ROI automatically increases if profit is constant (Merchant & Van der Stede 2007, p. 449). In residual income measures the capital charge is relatively high in the first years and low in the last years due to decreasing capital figure although profit and WACC stay constant, i.e. ceteris paribus EVA automatically increases over the investment’s life (Weber et al. 2004, p. 90; Holler 2009, p. 76).

These effects also have implications for the behaviour of managers: They are a disincentive for investment. Managers will refrain from investing – especially if they expect to leave the company since assets at the beginning of their useful life tend to deteriorate the measures (Jensen & Meckling 2009, p. 54; Holler 2009, p. 76). Moreover, there is an incentive to privilege short-term investments, i.e. investments with a fast depreciation, while longer-term investments, for example in research and development (R&D) are refrained from. Additionally, resources might be allocated to divisions with older assets since they seem to be relatively more profitable. Furthermore, assets are retained beyond their optimal life (Merchant & Van der Stede 2007, p. 450).

Weber et al (2006, p. 90) argue that the effect of a decreasing book value is hardly relevant in practice since they assume the assets' age structure to be constant, i.e. that the average asset's age is constant as assets are replaced regularly. In contrast, Brealey & Myers (2008, pp. 341-342) show that errors only offset in the long run if the company is not growing. The extent of the error depends on how fast the company is growing.

### Possible solutions

As pointed out above, the cause of age bias is accounting depreciation. Therefore, there are two possible types of solutions which are both related to depreciation.

First, *gross investment* – i.e. an undepreciated capital base – or replacement values can be used as a capital figure in the calculation of the measures (Merchant & Van der Stede 2007, p. 450). This way, the capital base which is charged remains constant.

Second, the depreciation schedule can be changed. For instance, *economic depreciation* can be used: Economic depreciation is the reduction in present value (PV) of future cash flows (CF) from one period to the subsequent one. PV changes as time moves forward for two reasons: On the one hand, CFs of past periods are not part of the stream anymore (PV decreases). On the other hand, future CFs 'move closer', i.e. their discounted value is increasing (PV increases). For constant CF streams, the first phenomenon outweighs the second, so that PV decreases (economic depreciation). By deducting it from CF, economic income is measured.

$$\text{Economic Income} = CF_1 + (PV_1 - PV_0)$$

By referring economic income to the PV, the economic rate of return is calculated which is not biased by age.

$$\text{Economic return} = \frac{\text{Economic income}}{PV_0} = \frac{CF_1 + (PV_1 - PV_0)}{PV_0}$$

Another way to adapt the depreciation schedule is to use sinking-fund depreciation as suggested by authors associated with Stern Stewart & Co (Young & O'Byrne 2001, p. 416). Thereby, the initial investment is distributed over the useful life using the annuity factor<sup>3</sup>. The composition of the annuity changes over the useful life – in the beginning the interest part is bigger while in the end the depreciation part dominates (Schultze & Hirsch 2004, pp. 71-72).

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$$^3 \text{Annuity factor} = \frac{(1+i)^n * i}{(1+i)^n - 1}$$

In the table below a simplified calculation of different measures for a constant CF stream can be seen. The cost of capital used in the measures was chosen equal to the internal rate of return so that the residual income should equal zero. It is assumed that the earned back depreciation is used for amortisation of financing.

	Period	1	2	3	4	5	6
	<b>CF</b>	<b>-1000</b>	<b>250</b>	<b>250</b>	<b>250</b>	<b>250</b>	<b>250</b>
<b>Traditional (biased)</b>	<b>Capital / Assets</b>	1000	833	667	500	333	167
	<b>Depreciation</b> (straight-line)	-167	-167	-167	-167	-167	-167
	<b>Profit</b> (CF - Depr.)	83	83	83	83	83	83
	<b>Return (ROI)</b>	8%	10%	13%	17%	25%	50%
	<b>Residual Income (EVA)</b>	-46	-25	-3	18	40	62
<b>Economic depreciation</b>	<b>PV beginning</b>	1000	880	744	591	417	221
	<b>PV end</b>	880	744	591	417	221	0
	<b>Ec. Depr.</b>	-120	-136	-153	-173	-196	-221
	<b>Ec. Income</b> (CF - Ec. Depr.)	130	114	97	77	54	29
	<b>Ec. Return</b>	13%	13%	13%	13%	13%	13%
	<b>Residual Income</b>	0	0	0	0	0	0
<b>Sinking-fund depreciation</b>	<b>Capital base</b> (beginning)	1000	880	744	591	417	221
	<b>Annuity</b>	-250	-250	-250	-250	-250	-250
	thereof capital charge	-130	-114	-97	-77	-54	-29
	thereof depreciation	-120	-136	-153	-173	-196	-221
	<b>Profit</b>	130	114	97	77	54	29
	<b>Return</b>	13%	13%	13%	13%	13%	13%
	<b>Residual Income</b>	0	0	0	0	0	0

According to the Preinreich-Lücke theorem, profit based and CF-based approaches lead to the same result if applied correctly (Kruschwitz 2007, p. 199; Küpper 2008, pp. 168-172). For instance by discounting the EVAs above with the WACC, a PV of zero results.

The following conclusions can be drawn from the calculation:

- With straight-line depreciation, the age bias can clearly be seen with an ROI ranging from 8 percent to 50 percent and EVA ranging from -46 to 62.
- Both of the discussed improvements – using gross investment or an adjusted depreciation schedule – relieve the age bias.
- A correct return and residual income can be measured with several depreciation schedules, i.e. different accruals of period income are possible.

It could be shown that age bias can be relieved by different types of adjustments. Among the changes of depreciation schedule, economic depreciation can be considered as conceptually superior

since it measures changes in DCF value directly. However, the question is how the conceptual superiority can be realised in practice since exact projections of CF are hardly possible.

## **Short-termism**

### **Problem**

The term short-termism refers to decisions in which companies pursue a course of action that maximises short-term gains but is suboptimal for the long-term (Lavery 2004, p. 949). Short-termism can occur when there is an intertemporal trade-off, i.e. when optimal short-term results do not extrapolate into optimal long-term results (Marginson & McAulay 2008, p. 274). There has to be found a balance between the short-term and long-term needs. While the ability to compete in the long run and long-term value creation is crucial, short-term goals cannot be ignored either if the company wants to survive in the short-term (Marginson & McAulay 2008, p. 274).

In practice, there seems to be a preference for short-term performance (Marginson & McAulay 2008, p. 273). Merchant & Van der Stede (2007, pp. 443-444) distinguish between two types of short-termism: Investment myopia means that managers refrain from investments because they lead to low short-term performance even if they have a positive NPV. This is especially bad if the investments are important for long-term competitiveness, such as investments in research & development. Operating myopia means boosting profits of the current period at the expense of future periods and goodwill that has been created over a long time. This can for instance be done by decreasing quality, forcing employees to work harder or so-called channel stuffing, i.e. boosting near-term sales by lowering prices to the disadvantage of later sales.

Financial performance measures are often blamed to encourage short-termism (Neely, Gregory & Platts 1995, p. 106; Langfield-Smith, Thorne & Hilton 2009, p. 692). On the one hand, they make short-term performance visible. On the other hand, there are biases in accounting measures that favour short-termism, especially if the measures are derived from financial accounting (Marginson & McAulay 2008, p. 276; Merchant & Van der Stede 2007, pp. 443-444): As discussed above, age bias can be a disincentive for investment. Furthermore, accounting measures are conservatively biased. By often recognising costs earlier than revenues, there is a systematic understatement of profits. For instance projects with uncertain returns – such as investments in intangible assets or new product development – are often expensed as the costs are incurred although they are investments from an economic point of view. If classified as capital investment in accounting, they are usually depreciated over periods that are shorter than it takes to realise the revenues. With single-period CF-oriented measures, the problem is even worse because investments lead to immediate pay-outs and there is no accrual if incoming payments are delayed.

The above-mentioned biases lead to a negative impact of investments on short-term financial measures. That means that managers who intend to produce high short-term performance can do so by refraining from long-term investments.

## Possible solutions

### Adjustment of the measures

One way to adjust the measures is to measure shareholder value directly by using *economic income* as explained in the context of age bias.

Another way is to improve accounting measures by *better matching revenues and expenses*. This can be done by making simple adjustments such as increasing depreciable lives or changing depreciation schedules. Furthermore, investments that were previously expensed directly should be capitalised and matched with later revenues (Merchant & Van der Stede 2007, p. 481). The matching principle is already an integral part of the IFRS stating that expenses which are directly related to particular income should be recognised in the period in which the respective income is recognised (F.95).<sup>4</sup>

Furthermore, a *disaggregation and reclassification of measures* could be thought of. For instance one could differentiate between revenues from old products and revenues from new products in order to motivate investments in product development. Another way is to differentiate between operating expenses and developmental expenses (Britzelmaier & Eller 2004). In such a concept, only short-term operating performance would be rewarded. The responsibility of developmental expenses is taken at a higher organisational level and managed with different controls. However, this approach has two main limitations: First, it is gameable since it is hard to distinguish between operating and developmental expenses. Second, the centralisation of developmental responsibility has the disadvantage that higher level managers might not be as well informed as managers closer to business (Merchant & Van der Stede 2007, pp. 480-481).

### Adjustment of the performance measurement system

Investment myopia can be addressed quite well with the above-explained adjustments. However, the general problem of short-termism has deeper causes such as stock market pressure or managerial opportunism. Some of the causes can be addressed as follows:

One suggestion is to extend the measurement horizon, i.e. extend the period which is used to measure and reward performance (Merchant & Van der Stede 2007, pp. 482-484). This has two advantages: First, it improves measurement since some measures are delayed and become more congruent with value-creation as the measurement period is extended. Second, by setting longer-term incentives, managers pay more attention to the long-term consequences of their decisions. However, as Merchant & Van der Stede (2007, p. 483) state, long-term incentives ought to be quite lucrative in order to achieve the desired motivational effects due to the uncertainty involved and the subjective preference for near-term payments which is a lot higher than the time value of money would suggest.

Accounting measures are past-oriented. Therefore, they should be combined with future-oriented measures so that there is a balance between long- and short-term incentives. The measures can be weighted differently to evaluate overall performance. Especially non-financial measures can be used.

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<sup>4</sup> A common application of the matching principle is the percentage-of-completion method according to IAS 11.22 (Weissenberger 2007, p. 60).



Market share, product quality or customer satisfaction are good leading indicators of future financial performance. Also capital market measures are said to be future-oriented (Merchant & Van der Stede 2007, pp. 472-479). Lavery (2004, p. 959) suggests to use short-term measures only for feedback to project managers on their progress instead of evaluating them by the measures.

Another suggestion from literature is to reduce short-term pressure. As surveys show, managers especially feel pressured by short-term stock market expectations (Lavery 2004, p. 956). However, there has been a debate going on whether stock markets are really myopic or not (Marginson & McAulay 2008, p. 275). Empirical research often does not support this view.<sup>5</sup> A theoretical argument which supports the view that stock markets create short-term pressure is information asymmetry. As investors do not have complete information about future prospects, managers need to rely on short-term performance to prove their effort (Lavery 1996, p. 834). These concepts can be transferred to the inside of the company. There is also information asymmetry between different management levels. Marginson & McAulay (2008, p. 276) hypothesise that the perceived pressure is passed down from one hierarchical level to the next. Lavery (2004, p. 959) suggests top management to break this vicious circle by acting as a buffer in order to relieve middle managers from external pressures. This should be clearly communicated, e.g. by reducing the weight of quarterly profit targets. Furthermore, a corporate culture should be fostered which protects managers from having to make trade-offs between short-term and long-term and makes them feel that long-term achievements will be rewarded. However, it is also important to maintain some short-term pressure in order to prevent inefficient decisions-making, for instance building up unnecessary slack resources<sup>6</sup> and ensure motivation (Merchant & Van der Stede 2007, pp. 484, 34; Lavery 2004, pp. 950-951).

As a conclusion about short-termism it can be said that intertemporal trade-offs are inherent in business. Both, short-term and long-term performance is important and should be monitored and evaluated. As shown above, the criticism toward the exclusive use of financial measures is justified.

## Sub-optimisation

### Problem

Sub-optimisation means that objectives of a sub-system are pursued to the disadvantage of overall system objectives. Although each sub-system might work at its optimum, this does not have to be true for the system as a whole (Lucey 2003, p. 114). This is especially relevant in decentralised organisations. Sub-optimisation in terms of investment can occur if divisional managers can decide over the level of investment – i.e. can decide whether to take an investment opportunity or not – and are evaluated based on return measures.

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<sup>5</sup> For instance, significant positive returns can be found related to the announcement of R&D projects (Marginson & McAulay 2008, p. 275). Moreover, the high valuation of start-up companies with large short-term losses indicates a long-term focus of the capital market (Abarbanell & Bernard 2000). On the other hand, there are studies finding that stock markets do undervalue future CFs in comparison to near-term CFs (Black & Fraser 2000, p. 152)

<sup>6</sup> Slack resources are resources that are in excess of the minimum resources needed for a certain level of output. (Hitt, Ireland & Hoskisson 2007, p. 148) On the one hand, they enable companies to react flexibly. On the other hand, they lock up expensive capital.

This leads to different incentives for investing in the same asset across divisions. For example, if an investment opportunity promises a return of 20 percent and division A currently has an ROI of 40 percent, the manager will be reluctant to invest as it will decrease the division's overall ROI. However, if division B is earning a ROI of only 10 percent, it will take the opportunity. The result is that capital is allocated to less successful divisions while there is little or no expansion in highly profitable divisions (Anthony & Govindarajan 2001, pp. 258-259; Merchant & Van der Stede 2007, pp. 447-448).

With the above-mentioned incentive structure, managers of under-performing divisions are furthermore inclined to invest below the cost of capital if the investment promises a return below the cost of capital but above the current ROI (Merchant & Van der Stede 2007, pp. 447-448).

A related problem is that if a manager can decide over the level of investment, he/she could theoretically reduce assets to a level at which the company only owns the one asset with the highest return (in percent). However, value (in currency units) is also created with other assets as long as their return is higher than the cost of capital. So, there is an incentive for underinvestment (Jensen & Meckling 2009, p. 53).

### **Possible solutions**

A possible solution to this problem is to use residual income measures and to make the capital charge contingent on the respective asset, e.g. by determining required returns for different classes of assets. Thus there is the same profit objective for the same asset company group-wide which means that there is no misallocation of capital and no investing below cost of capital. At the same time, there is an incentive to take every investment with a positive residual income irrespective of the division's situation as residual income is measured in absolute numbers and cannot spoil average returns.

### **Conclusion**

The paper shows the main dysfunctions and biases in financial performance measures, namely age bias, short-termism and sub-optimisation. All of them can cause misinterpretations, wrong decisions and decisions not aligned to the goals of the principals but the agents.

To overcome these obstacles several solutions are outlined. Solutions include the application of suitable adoptions and the use of different methods.

As long as practitioners are not aware of dysfunctions and biases of financial measures the problems shown in the paper won't disappear. Methods and models accepted in theory and practice have to be developed and applied to get improved financial measures in the future.

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## SUPPLIER DEVELOPMENT PROGRAMME INITIATIVE IN SERVICE INDUSTRY FROM MALAYSIAN PERSPECTIVES

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### Abstract

Global business expansion initiatives of a buying firm which is at the second phase of its 20-year strategic planning, has increased the importance of supplier development programme (SDP) towards developing world class suppliers. The study investigate the implementation of SDP of vendor development programmed (VDP) aimed at producing competitive and resilient indigenous suppliers at local platform and international arena. As an explanatory research which employs qualitative method gathers samples comprise of the buying firms, suppliers, association and government ministerial officers. The finding reveals that the government policy has greatly assisted in enduring the effective implementation of SDP by the government-linked companies (GLC). In addition, the buying firms have initiated all four critical success factors; communication, suppliers' commitment, top management priority and attitude towards supply base performance.

### Introduction

In a dynamic market, firms need to evolve from traditional to strategic purchasing which aims to reduce the cost of purchase, increase in quality of product and service, and improve in delivery time. Supplier development is one of the initiatives undertaken by the buying firm and it assist to increase the performance and/or capabilities of its suppliers in order to help the firm meeting its strategic organizational objectives (Rashid et al., 2008).

For the purpose of this study, supplier development is defined as

*"any activity undertaken by a purchaser to improve a supplier's performance and capabilities, to meet the purchaser's short-term or long-term supply needs" Monczka et al. (2002).*

This study has aimed to achieve the following objectives:

- Assess the level of implementation of the supplier development programme, and to what extent has the government policy been successfully implemented.
- Identify the factors that influence the failure or success of the supplier development programme at the implementation stage.

The study has covered the supplier development programme and the activities between the buying firm, a power utility company, a nationally owned company and its suppliers that are participating in the supplier development programme named vendor development program related to providing

products and services to the company. This study has also focused on the development activities that are for increasing the performance and capabilities of the suppliers towards supporting the company's operations and business and also expanding into new venture opportunities abroad as power generation industry is exploring into overseas ventures.

## **Literature review**

In their study on 527 high-level purchasing executives who were members of the National Association of Purchasing Management (NAPM), USA, to identify factors contributing to supplier development success, Kraus and Ellram (1997) have identified a range of buying firms' efforts in their supplier development activities.

The authors have found that these efforts cover the range from limited and indirect involvement and to those extensive activities which include training of supplier's personnel and investment in the supplier's operations. The authors also found that from the exploratory study of the two groups of firm and divided them into Exceeded group; group at the upper half of the survey scale and the other is Fall Short group. The Exceeded group that was successful in the supplier development efforts had significantly higher involvement in activities towards the Extensive Buying Firm Involvement as shown in Table 2.1

Krause (1995) has also synthesized the various factors into a continuum of supplier development activities. According to the author, activities towards the "limited" side of continuum tend to require relatively little efforts by the buying firms, whereas, activities towards the Extensive side of the continuum tends to be hands-on activities that require relatively greater efforts by the buying firm.

Krause et al. (2000) further classified the buying firm's roles in the supplier development activities into two categories: indirect (externalized) and direct (internalized) supplier developments. In the case of indirect supplier development, the buying firm commits no or limited resources to the intended supplier. To improve the supplier, the buying firm offers incentives or forces the supplier to improve through assessment, communicating supplier evaluation results and performance goals, increase the buyer organization's expectation of the supplier's performance, instilling competition by the use of multiple sources, and promise of future business. On the other continuum, direct supplier development involves buying firm playing an active role where human and/or capital resources are dedicated to be more involved with the activities of intended supplier that may include provision of equipment or capital, on-site consultation, education and training programmes and temporary personnel transfer. However, according to the authors, the later category poses a risk to the buying firm if the relationship is in trouble as the benefits of investment are non-recoverable for the buying firm.

Watts and Hahn (1993) discovered that generally, implementation of supplier development activities is most likely to be a short-term focus, targeting at improving suppliers' product or service performance rather than long-term focus on improving suppliers' capabilities. Similar finding has also been reported by Abu Bakar (2002) in a case study involving a large Malaysian firm and its four small

and medium-scales entrepreneurs (SME) suppliers. According to the later, the buying firm in the case study has focused its supplier development efforts on the short-term results at improving of product quality, price, and delivery and service performance instead of a long-term focus in improving suppliers' capabilities.

Hartley and Jones (1997) have classified the objectives of supplier development into two categories: result-oriented supplier development and process-oriented supplier development. According to them, suppliers who are involved in results-oriented supplier development efforts often return to "business-as-usual", and fail to make further improvement once they are left on their own. On the other hand, process-oriented supplier development efforts focus on building the suppliers' capability. Thus, even after the buyer has left the suppliers to function on their own, the suppliers have already attained sufficient exposure, equipped with right facility and have strong financial backing to continue making further improvement themselves. Hartley and Jones (1997) have also identified four steps that are designed to effectively build the capability within the supplier's organizations; access the suppliers' readiness for change, build commitment through collaboration, implement system-wide changes and transition out of suppliers' organizations. Process-oriented approach, however, is not a replacement of the results-oriented supplier development but a complement to the results-oriented supplier development efforts (Hartley and Jones, 1997).

Krause et. al's. (2000) surveyed of 527 members of National Association of Purchasing Management showed that "supplier assessment and supplier incentives are key enablers of supplier development efforts for the manufacturing firms in this sample". The researchers revealed that supplier incentives and supplier assessment stimulate supplier action indirectly to improve performance. The findings also revealed that direct involvement of the buying firm in activities such as training plays a direct role in achieving significant results (Krause et. al., 2000).

Other researchers discovered four main types of value extractions that companies are seeking today: operational performance improvements, integration-based improvements, supplier capability-based improvements and financial performance outcomes. Operational performance will continue to be important in many buyer-supplier relationships; however, integration-based and capability-based value is becoming more important. Buyers have started focusing on suppliers' capabilities such as international experience, continuous improvement capabilities, environmental capabilities, by involving suppliers in NPD, or by acquiring suppliers' technical knowledge. The research has shown that competitive advantage initiatives will ensure firms to be more effective and efficient value creation than their primary competitors.

The authors discovered that buying firms are expecting more from the suppliers and are willing to help suppliers. On the other hand, suppliers have increased expectations regarding the investments that should be forthcoming from the buyers. Terpend *et al.* (2008) also suggested that buyer should be willing to invest in a variety of mechanism to enhance value extraction from their key suppliers. While due intense global competition during the 1980s and 1990s, supply management professionals have emphasized a focus on keeping costs low, improving quality, and ensuring on-time delivery

(Krause, 1995). In addition, supplier development activities expect to see improvements in areas such as quality, delivery, cost and technology effectively enhancing the values propositions of the buying firm (Burt *et al.* 2003).

In addition to the operational performance based related to quality, cost and delivery, Terpend *et al.* (2008) indicated that buyers have started focusing on new additional areas of suppliers' capabilities such as international experience, continuous improvement capabilities, environmental capabilities, by involving suppliers in NPD, or by acquiring suppliers' technical knowledge. Further research has indicated that competitive advantage initiatives with the focus on the supplier development activities and the related outcomes will ensure firms to be more effective and efficient in facing challenges from primary competitors.

## **Methodology**

In this case, the researcher has conducted an exploratory study to assess the level of implementation of supplier development program in a power generation plants of a power utility company, to identify the factors affecting the outcomes of the supplier development efforts, to assess the effectiveness of the program in achieving buyer-supplier partnership and to propose improvements to the existing program.

The process of conducting a case study begins with the selection of the "case" (Merriam, 2002). The selection was done purposely, not randomly; that was, in particular power generation division in the utility industry. A qualitative approach was employed to fulfill all the objectives of this research. Data collected through interviews, buyer facility and operational observations, documentations, media accounts and electronic texts have been utilized for thoroughness of this study.

### **Sample characteristics**

Respondents for the interview have been selected based on those who have been significantly involved in the supplier development programme at the buying firm. The selection has been done in order to provide inputs that take into consideration of views from various functions and level within the firm, supplier and related government ministries. Respondents comprise seven personnel from the buying firm, two from government agencies, five from suppliers and one from suppliers' association.

## **Findings**

### **Supplier development activities**

Followings are the information attained through data collection, interviews and discussions with the respondents on the level of implementation of supplier development program (SDP).

### **Transformation Programme**

In line with Government Link Companies (GLC) Transformation Programme in 2005, the firm has been given the responsibility to promote the development of more competitive and resilient



Bumiputera enterprise community, through the creation of better-skilled Bumiputera managers and employees, and producing highly capable Bumiputera vendors, suppliers and entrepreneurs.

### Bumiputera Vendor Development Programme (VDP)

The supplier development programme inception in 1993 are to support the objectives of national development strategies, development of Bumiputera Industrial and Commercial Community (BICC), improve import substitution and local content requirements, and generate competitive and resilient Bumiputera entrepreneurs, improve research and development activities, and attainment of technology transfer.

The evolution of the supplier development programme, Bumiputera Vendor Development Programme (BVDP), continues from the focus on import substitution, increase in local content requirement and Bumiputera participation in 1994-2006, to the GLC Transformation Plan initiative that detailed out in the 'GLC Red Book' (Red Book) by Putrajaya Committee on GLC High Performance in 2006 and the revised programme in 2007. The firm is focusing on developing suppliers towards "Global Player" status in line with the firms's 20-year strategic plan which is approaching the second stage; Global Expansion for 2011-2015.

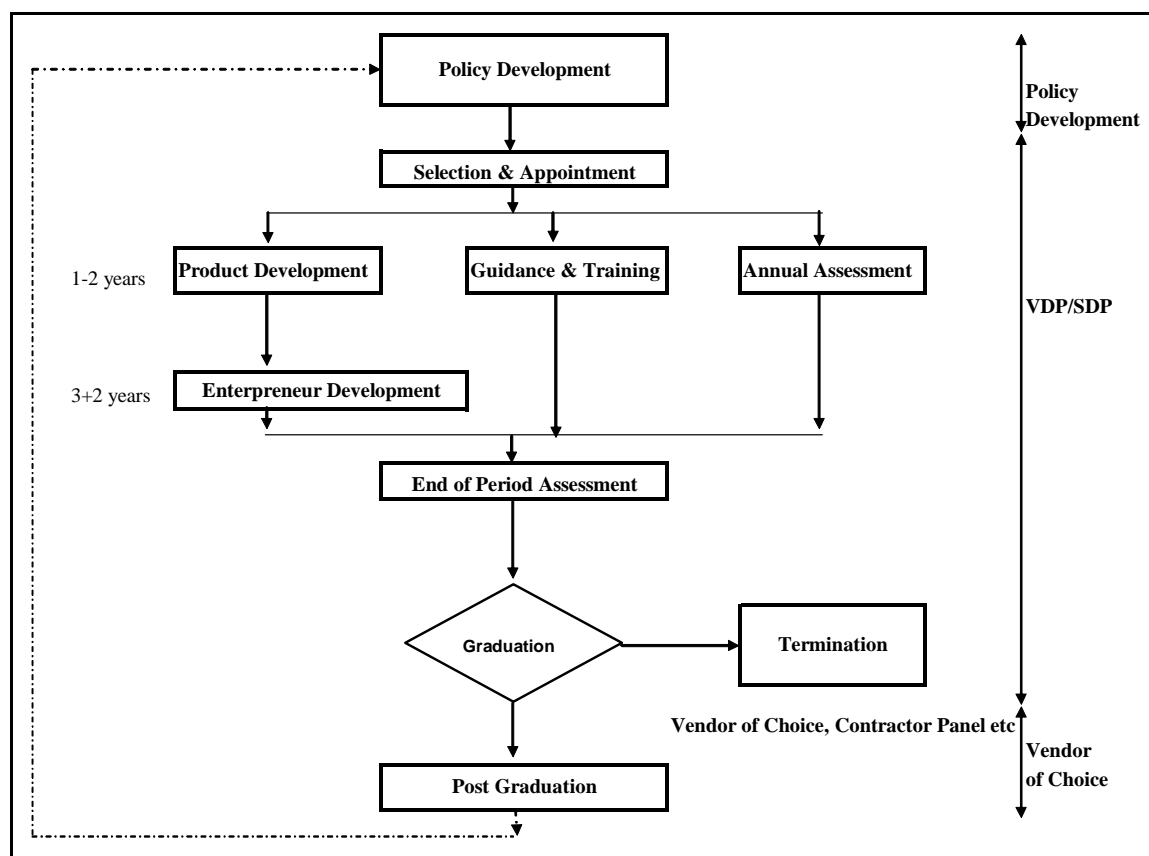


Figure 1. Tenaga Nasional Berhad (TNB) Bumiputera Vendor Development Program

The objectives of the supplier development programme, exhibit Figure 1 above have been reviewed to be in line with implementation of best practices and guidelines as stipulated in the Red Book. The reviewed areas involve the responsible parties, role and responsibility of the department and subsidiaries of the company, duration for the implementation of the development programme by each supplier, the area of focus for the implementation, allocation of quantum and award of contract, method of procurement, determination on the pricing based on direct negotiation method, training and guidance, quality assurance, rules and selection process, performance evaluation and key performance indicators, graduation, and penalty and dismissal.

### **Strategic Supplier Management Department**

The firm has set up a specific department named Supplier Strategic Management department which consists of two main sections; Supplier Planning and Development section and Supplier Operational and Relationship section and the assisted with a Coordination unit. Supplier Planning and Development is responsible for the implementation of the government and anchor firm's policy, selection and graduation. On the other hand Supplier Operational and Relationship section is responsible to manage the training, mandatory assessment and unscheduled inspection. The coordination unit is responsible to monitor the schedule for assessments and networking activities. The department as a whole is responsible to manage the supplier issues from selection, guidance, assessment, penalty, graduation, post-graduation, linkage between the suppliers' association (MEEA) and government agencies.

### **Supplier Selection Process**

In the selection process, the suppliers are to submit their complete project proposal and then present it to the selection committee that should indicate among others the positive projection of the product application and technical capability and backed-up by strong in commercial and financial support. In addition, the ownership of company should remain intact throughout the programme, the director and equity holder should not participate in more than one BVDP, no sharing of facilities and premise, no involvement or supported by companies registered in Malaysian bourse and finally the suppliers must comply with all the requirements throughout the programme.

### **The Suppliers' Categories**

The programme consists of four main categories; entrepreneurs, the vendor/supplier of choice, panel companies and strategic business partner. Entrepreneur development is the first phase of the programme which selects the potential entrepreneurs involve in high technology manufacturing and services. Upon the appointment, the entrepreneurs are to buy tools and machineries and develop the product within one to two years. Then the entrepreneurs are to develop their managerial, entrepreneurial skills and implementation of quality management systems in three to five years time. During the above periods, entrepreneurs are given the necessary guidance and related trainings and are assessed by the annual mandatory assessment and unscheduled assessment depending of the needs by the anchor firm. At the end of year four to seven, whichever comes first, the suppliers are to pass the final assessment that comprises performance assessment, entrepreneur development

assessment and Malcolm Baldrige quality assessment before graduation. If successful, the entrepreneurs are classified as supplier-of-choice otherwise they are to either re-do the product development stage or terminated from the programme.

The second category is the supplier choice that is for suppliers that have sufficient facilities, certification and have successfully graduated from the first phase. The categorization enables them to continue their business with the firm which is the anchor company and at the same time is encouraged to also expand their services to other large firms or global markets. The third category is the Panel Supplier that supplies specific parts or services, the participants that join the above programme or supplier from outside the programme that have been identified with strong credential and capability for a particular product. The fourth category is the strategic business partner which involves supplying specific product that gave an impact to the firm but only has small commercial value.

It is envisaged that the graduated suppliers shall demonstrate an entrepreneur skills that delivers high performance and capability products and services, produce products at competitive price, continuous implementation of quality systems, active involvement in R&D activities and always exceeding their targeted Key Performance Indicators (KPIs).

### **Implementation of Quality Systems**

In the quality aspect, product quality assurance requires the suppliers to produce products that meet quality control as stipulated in ISO 9001: 2008 or the latest revision requirements. The quality control system also requires the implementation of safe and clean environment, effective tools and machinery maintenance system, statistical process control system, continuous standardization and work improvement process and the implementation of continual quality improvement.

The suppliers are required to implement a Quality Management System (QMS) module with the objectives to producing product that complies with specifications and at the level of quality stipulated by the firm and at the same time to ensure that the suppliers become highly competence and competitive. The QMS module consists of four systems; (a) 5S System (the Japanese system for clean and efficient management of plants and offices through Seiri, Seiton, Seiso, Sheiketsu and Shetsuke to ensure a conducive work environment and excellent control of visual management of premise and environment), (b) Total Productive Maintenance – Autonomous Maintenance; to ensure that machinery is in clean, good and efficient running condition that at the same time and reducing machinery breakdown and operational wastage, (c) Statistical Process Control System; to ensure standardization of process and high level of product quality, and (d) Value Stream Mapping (VSM) System; to identify and reduce wastages.

It is envisaged that with the successful implementation of QMS module, the suppliers will be working in a conducive manufacturing environment and excellence visual management, operating at high machine efficiency, attain high process capability, have less number of cases of re-work or defect-free, short lead time that will enable the implementation of J-I-T concept. This will eventually enable both suppliers and anchor company to lower their inventory for better cash flow, produce

products that are competitive due to low manufacturing cost and finally generate greater confidence and trust to the anchor company and their new customers.

Benefits expected by the buying firm with the successful implementation of the QMS module are the improvement of the quality products installed at its plants that will ensure defect free and longer product life cycle. Buying firm can reduce its inventory that contributes to better cash flow with on time delivery and short lead time for order of the required spares. This will reduce system downtime and purchasing cost. Buying firm will also attain higher internal and external customer satisfaction level that will boast its corporate growth that greatly helps in its global expansion initiative.

### **Assessments**

The monitoring of the programme is also cited as the major contribution to the effectiveness of the programme. In line with this requirement, the buying firm has rightly instituted the annual audit and surprise visits to the supplier's office and factory facilities and at the same time get feedback from end users and retrieving performance review recorded by end-users on Enterprise Resource Management System (ERMS). "...four months ago our company was rated 65% in the assessment and we took it as a challenge by appointing a consultant that will guide us thoroughly on 5S and TPM systems through training sessions and guidance on the actual implementation at our plant, and today in this re-assessment, we are targeting to achieve 90%, surpassing the benchmark point of 80%..." On the other aspect, the government agencies only monitor through the reports submitted by buying firms should also be more active in the monitoring to ensure effective enforcement of procedures and guidelines and have sufficient personnel to ensure that the policies are well executed

From the record up to July 2009, only 15% of the suppliers have failed in the programmes, due to various reasons; among others the failure to attain sufficient contract to survive its overhead costs and incapable to improve entrepreneurial and technical skills due to rapid change of product technology. To improve the situation, Strategic Supplier Management (SSM) has improved the implementation of the supplier selection with the implementation of the pre selection survey that will gather the requirements of the particular product from the end users, and use the collated data to forecast whether the newly applied BVDP participant is able to secure adequate contract to survive the overheads.

### **Graduation of Supplier Development Programme**

Since 2009 the firm has enforced the Key Performance Indicator system onto the suppliers. The criteria consist of: a. the recent result of the annual assessment b. the performance in the implementation of QMS module c. the level of implementation of the local content in the product d. level of Bumiputera participation in the company e. the supplier's financial capability, and f. the diversification of the markets for the supplier's products. The grading is based on the total points collected with excellence at 80-100% points, good at 60-79%, medium at 50-59% and weak when the points are below 50%. Points required for graduation is 80% or more. Upon graduation, the successful supplier will be placed on the category of supplier of choice and be given the preference in future contracts.

### **Suppliers Association**

The study also discovered that the communication between the participating parties has taken place at proper intervals. Communication is done by frequent informal meetings and through the MEEA. The association provides the important linkage with the special unit, SSM and government agencies for effective solution to problems and blockers that that may hinder the success towards better implementation of SDP.

The study further revealed that supplier association plays a vital role in accomplishing the SDP success. Issues have been be effectively discussed and solved with discussion and collective decision made by all parties. MEEA has been set up to handle suppliers' issues, provide knowledge sharing platform and acts as the representative of the participating VDP members in overseas business ventures. Regular meeting, networking and discussion will in the long run benefit all members, as advocated by Hines (1994) that part of the success of the program in Japan was because of the association that suppliers are actively involved. Establishing suppliers association (Nick and Hines, 1997) between the anchor firm and those suppliers in the SDP and in addition, periodic meeting with the government agencies with ensure effective and efficient implementation of SDP.

### **Buying Firm's Global Strategy**

The anchor company itself is dynamic and very aggressive in exploring large market abroad as it enters into the second phase of its 20-year strategic plan. The first phase was Service Excellence 10/10 whereby it has focused on improvement on its service quality and delivery. The initiative was very successful as its power plants are operating at world class performance level surpassing even the local IPPs, the transmission system minutes has dropped to single digit figure and distribution SAIDI index has dropped from close to four figure index to two figure index. In addition the company has successfully achieved the highest national quality award, the Prime Minister Quality Award in 2008, two years ahead of its initial 2010 target year to achieve.

For the second phase, global expansion (services), the firm is actively participating in international tenders in the emerging countries such as South East Asia, South Asia and Middle East countries. The firm has set it foot in Pakistan and Saudi Arabia with the operation & maintenance of a combine cycle gas turbine and diesel plants in Pakistan and energy and water plant in Saudi Arabia.

This initiative will help in expanding the marketability of the suppliers' products and services. At the moment few suppliers have benefited the firm's initiatives with the successful penetration onto large local firm and MNCs such as Petronas and Exxon and expand their products to Asia and Middle East.

### **Discussion**

The first objective of this research is to identify the type and extent of supplier development activity undertaken by the buying firm in which the case study is based upon. To achieve this objective, the researcher carried out discussion and interviews with the personnel in the buying firm, the suppliers and government ministries and carried out site visits and gathered related documentation to solicit

the inputs based on the respondents' actual activities carried out and their perceptions of the programme. The researcher has divided the findings into three main areas of buying firm's activities, supplier activities and government activities and contribution to the programme. Thereafter this section will highlight the findings of the recent studies on almost the same area of objective of SDP activities by two local researchers in manufacturing firm and the national automobile manufacturer.

### **Buying Firm Activities**

The buying firm has shown the seriousness in the implementation of SDP by assigning a department with specific function that is detached from the status-quo practice by procurement personnel in having a specific department named Strategic Supplier Management Department (SSM), to manage all SDP related issues that consist of monitoring the implementation of the government policies, development of in-house policy and procedure specific for SDP, supplier selection and appointment process, supplier product and entrepreneur development phases, guidance and training, implementation of QMS module, supplier graduation, post graduation, award recognition and the implementation of buyer-supplier relationship.

Supplier is given one to two years to complete the facility and product development, followed by entrepreneurship development phase which is to be completed by the supplier within another three to five years and in between the whole period, the SSM continuously provides guidance and arrangement for the relevant training sessions. To ensure suppliers follow the right track as stipulated in the procedure and guidelines, annual mandatory and unscheduled assessment sessions are carried out. The activities are vital as supplier assessment and evaluation can help in identify areas where supplier development activities should be concentrated (Hahn et al. 1990) and can provide a benchmark to evaluate the outcomes derived from supplier development activities (Hines, 1994)

At the end of the maximum seven-year period, the suppliers will be accessed on Entrepreneur Graduation Assessment in which the overall assessment will look at the of the suppliers' performance from all the previous annual assessment results. The graduation assessment consists of six criteria, firstly is on the supplier's performance as recorded in the supplier's completed job evaluation report in the ERMS by the end-users at sites. The performance evaluation gives the indication of the supplier's performance in quality, price and delivery of product and services; secondly the QMS performance in which the performance of the activities in implementing the four main quality activities; 5S, TPM-AM, SPC and VMS is evaluated, thirdly the local content requirement, fourthly the Bumiputera participation, fifthly the financial performance and finally the market diversity. Other information that are also assessed include capital investment, total R&D spent on product, depreciation value of equipment, production capacity, involvement of subsidiaries or other companies during production process, kind of technology transfer from the anchor supplier if the supplier being the key distributor of imported products, key competitors, customer split in term of sales allocation to each customer and future growth plans.

The supplier that successfully passed the graduation assessment will be conferred the supplier-of-choice or contractor panel and the unsuccessful supplier will be terminated from the programme. The

post graduation activities involve new overseas venture opportunities with close cooperation with suppliers' association and the buying firm.

### **Supplier Activities**

The suppliers on the other hand have played their part by the serious implementation of the SDP with the better factory facility and machineries, implementing the QMS module as stipulated by the buying firm and at the same time achieving international quality standard, ISO 9001:2008, improve staff competency with internal and external training and ensure staff have the required safety certification such as safety and scaffolding competency certificates, have own R&D facility, diversify the marketability of their products and provide for linkage with the buying firm with the existence of MEEA which not only provides better networking within members but also acts as a platform in solving issues with buying firm and importantly with the good relationship with buying firm, supplier will gain benefit of buying firm global business expansion initiative.

### **Government Policy**

Government has played major role with the issuance of the policy for the implementation of BVDP. The policy has ensured that all GLCs' large firm is to implement the policy and submit periodical report to the government on the progress of the implementation. Even though the government has weaknesses in term of site monitoring and assessment due to shortage of staff and lately the issue of the permanency of staff in a dedicated ministry since the divestment of MECD in April 2009 during cabinet reshuffling exercise, nonetheless the policy for the supplier development and the follow-up policies generated by GLCs have greatly assist in guiding and ensuring the successful implementation of the programme in GLCs.

### **Summary of Discussion on Research Objective 1**

Findings from this study and the comparisons with two recent studies indicated that the buying firm of this study is at the continuum of as specified by Krause (1995) as High-to-Extensive Involvement as compared to Limited Involvement for the case of manufacturing firm and Extensive Involvement for the automobile firm.

The activities of the firm under study are classified as process-oriented supplier development efforts that focus on building the suppliers' capability (Hartley and Jones, 1997). It is the intention of the buying firm that after graduation from the programme, the suppliers have attained sufficient exposure, equipped with right facility and have strong financial backing to continually improve its capability and competitiveness. However as stated by Hartley and Jones (1997), process-oriented approach is not a replacement of the results-oriented development but act as a complement to the former.

It is also observed that the buying firm is implementing what Sako (2004) had found on a system implemented by Honda, Nissan and Toyota with the separation of supplier development and purchasing function for more focus and better control of suppliers.

The findings of the SDP is also in line with Terpend et al., (2008) suggestions that operational performance will continue to be important in buyer-supplier relationships; however, integration-based and capability-based value is becoming important with the buyer firm increases focus on international experience for its global expansion initiative.

## **Discussion on Research Objective 2**

The second objective of the study is to identify the factors that influence the failure or success of supplier development programme at implementation stage. Results of this study indicate that the following factors have been found to have significant impact on the outcomes of the supplier development efforts that the buying firm has undertaken with its suppliers:

### **Effective communication between the buyer and its suppliers**

For this case study, the buying firm is involved in the power generation industry in which the availability, reliability and quality of electricity generated are very important factors for its deliverable objectives. These require the uninterrupted supplies of power with very minimal distortion of voltages to customers and that translates into its major Key Performance Indicators (KPIs) of minimizing interruptions through low Equivalent Unplanned Outage Rate (EUOR – at generating plants), Transmission System Minutes (TSM - at transmission networks) and SAIDI (at distribution networks) indicators. The above KPIs are the measures of power interruptions that happened for a duration normally calculated monthly and yearly in percentage or minutes against the total period of calculation based on the total duration of power supplied to customers. Quality and reliability of power supply requires the reliability of the operations of all critical systems and equipment at the buying firm's plants and this requires quality, cost effective and on-time delivery of products and services from suppliers.

The firm has an effective communication channel through the specific focal department, the supplier's association and assessments' feedback to facilitate information exchange with regards to the supply of products and services at the right specifications, at optimum cost and delivery within the specified time. This finding is consistent with Newman and Rhee (1990) that effective communication is a key element to successful supplier development results. According to Monczka et. al., (2002) the information exchange is vital for successful supplier development processes and it is in line with the finding of this study whereby the two-way communication is carried out through meetings, discussions and sharing of information on the system installed, the engineering requirements, the related drawings available, the system performance trending, issues related to the existing installed equipment and the improvement or expectation on the design, delivery lead time, performance and warranty of the supplied products and services by the suppliers. This finding has also strengthen Paulraj and Chen's (2007) findings that exchange of information through inter-firm communication is an essential condition for realizing the potential benefits of collaborative relationships.



The effective communication between the buying firm and suppliers have shown a positive impact with improvement of all the KPIs of the buying with EUOR of less than 4% per year is equivalent to world class power plant performance, TSM improved to single digit from two digits and SAIDI improved from three digits to two digits which is close to the target of the operating range of among the developed nations. This finding is in line with Sako's (2004) suggestion that higher levels of information exchange between organizations in a supply chain leads to higher levels of customer satisfaction and it is also supported by the previous study by Abu Bakar (2002) who has found that communication is a significant factor in the successful supplier development efforts.

### **The suppliers' commitment towards supplier development efforts**

Supplier's commitment is important in ensuring that all the activities and quality systems that are stipulated in the SDP are fully implemented by the supplier. According to Handfield et. al., (2000), lack of commitment, in term of quality and delivery of the supplied products and performance of the pre, during and after works of the offered services, the initiative to develop suppliers for the selected products and services will lead to failure to implement the improvement identified through SDP.

Researcher has found that the suppliers are continually improving their performance with the implementation of the quality systems, attending trainings that are coordinated by the buying firm and acquiring competency certification as required by laws especially safety certificates. This is supported by Krause's (1995) finding that for the supplier development to progress, the supplier must commit to the effort to get the support of the buying firm. However there is an issue of the risk to suppliers as the personnel that are equipped with the certification has the potential for job-hopping, however the supplier has come out with an additional agreement for the personnel to ensure that they would remain after attaining the certificate.

The suppliers as advocated by Morgan and Hunt (1994) have always maintained the relational commitment by ensuring that their products and performance are adhering the specifications set-up by the buying firm and perform the job at site, timely, safely and environmental friendly. This is to ensure that no Non-Conformity Request (NCR) or stop-work-order issued to them that will definitely jeopardize future jobs with the buying firm.

The researcher has reviewed the record of the stop-work-order issued to the supplier due to non conformity of safety practice, however the work resumed after quick remedial action by the supplier.

On the other hand, as suggested by Morgan and Hunt (1994) on the implementation of relational commitment, the buying firm has also assisted in this area with the assessment activities that track and monitor timely the progress of the implementation of the supplier development activities and appropriate actions are timely taken based on the findings and for the worst case status, in which for the supplier that has shown no progress after few assessment sessions, the supplier will be terminated from the programme.

### **The support of the supplier's top management**

Any efforts towards improvement will require allocation of resources in terms of financial, time and people in order to be successful (Monczka *et al.*, 1993). Most of the suppliers' top managements have shown their seriousness in the programme with hiring the right technically skilled and experience personnel and procuring new tools, machineries and equipment for the improvement in their production efficiency and delivery effectiveness. This is in line with Easton's (2000) findings that initial commitment by supplier's top management in the form of specific asset, personnel, capital, times and technical knowledge will promote long-term commitment through cooperation and the willingness to compromise in order for a supplier development effort to have a chance to success. Therefore, without the support of the supplier's top management, the programme as a whole will fail and the buying firm will not be able to achieve its objective of generating a new supplier that will produce the anticipated product that not only will benefit the firm but will also benefit the other firm in the related industry. This is in line with Handfield *et. al.*, (2000) that the state of commitment of the suppliers' top leadership at the initiation of the supplier development activity may have an impact on the level of results achieved and further strengthen with the suggestion by Doolen *et. al.*, (2006) that, "Strong, collaborative relationships with suppliers combined with shared strategic objectives are crucial to ongoing success in supply management".

Researcher had first-hand experience while visiting the suppliers' premises and witnessed the investment of the suppliers with the purchase of new tools and machineries to enhance its capacity and capability, the implementation of the quality system such as 5S and TPM, hiring experience technical staff, provide and encourage training of staff and the seriousness of suppliers to achieving graduate status. The suppliers are also now looking for outside market locally and overseas. As suggested by Monczka *et. al.*, (1993) that to have a successful supplier development, it is important that the supplier's top management recognizes the need for continuous improvement.

### **The buying firm's attitude towards its supply base performance.**

The suggestion by Abu Bakar (2002) that the participants of the supplier development programme are to be more involved in the program by having dynamic periodical evaluations as well as progress monitoring of the supplier development activities in order to ensure successful outcome of the efforts have been answered with the implementation of mandatory annual assessment and unscheduled assessment by the firm. The initiative is vital to ensure that the suppliers' progress are tracked, shortcoming identified and corrected at the earlier stage which not only less costly but importantly is to enable both buying firm and suppliers to achieve high success rate for the programme. As suggested by Krause (1995) that inadequacies in the supplier's performance and capabilities, if dealt with aggressively and proactively, will potentially lead to improvement in the supply base performance and capabilities. In addition, the assessments can also identify the need for continuous improvement for both buying firm and supplier (Monczka *et. al.*, 1993).

With the setting up of a dedicated department, SSM, and in addition with selection of the experience and dedicated staff from plants and other divisions for the department, the researcher

believes that the buying firm has moved onto the right direction into ensuring the successful implementation of the programme. This is proven with the activities of dynamic periodical evaluations, MOUs for training with MPC, contract award allocations, rewards for high performers and good network with suppliers and the association and interestingly some of the suppliers have successfully expanded their products and services into other local large firms and the global markets. It is believed that the platform for suppliers to perform is readily available and it is up to suppliers to utilise the opportunities laid upon by the buying firm for their own development and success. This is supported by Krause and Ellram's (1997) findings that organizations experiencing the successful supplier development efforts are generally more proactive and having high involvement in the suppliers' activities.

Other factors explored from the findings by previous study on Supply Development Programme by local researcher, Latifah (2006) have also been revisited and the four issues highlighted: lack of bargaining power due to small purchase volume, lack of competencies within the buying firm, lack of teamwork among the various functions within the buying firm and lack of effective follow-up by the buying firm have been found to be sufficiently overcome by the existing buying firm with the activities of allocation of quantum distribution, effective assessments, close cooperation of buyer, supplier and government agencies and the close monitoring of SDP activities by the focal department (SSM).

### **The support by the government policy**

The success of the programme is very much related to the status of the anchor company. Interviews by researcher with the government ministries and findings of SDP researches in this country have found that the programmes that were successfully implementation were from the firms related to GLCs and the implementation at manufacturing firms is not achieving the anticipated results as the anchor companies especially companies from Japan and Korea still prefer to award contract to their own subsidiaries from their own country (Abu Bakar, 2002). The finding is that even though the government does not implement site assessment but the existence of the government policy has been implemented by the anchor firms in GLCs by developing their own procedure for successful implementation of the programme. The initiative by buying firm is in line with Krause (1995) that inadequacies in the supplier's performance and capabilities, if dealt with proactively, will potentially lead to supply base performance and capabilities. In addition this stance is further strengthened by Krause and Ellram (1997) that buyer organizations' proactive stance or attitude towards supply base performance contributes to the success of supplier development efforts.

Critical factors in the supplier development outcomes:

Increasing competition in the global market, characterized by shorter product life cycles, higher product quality, cheaper prices and shorter delivery times to satisfy demanding consumers, are the challenges of today. This is in line with Krause's (1995) findings that supply management professionals have emphasized their focus on keeping costs low, improving quality, and ensuring on-time delivery. Firms worldwide have responded to this competitive environment with various

strategies and activities such as downsizing or concentrating on core competencies. It means firms have to rely heavily on outside suppliers to provide high quality products, lower cost, on-time delivery and constant increase in capability. Firms must, therefore, be continuously involved in supplier development to ensure that their suppliers have the same capabilities and at the same time share similar policies and objectives as theirs in order to compete in such environments. Rashid (2008)

### **Quality of deliverables**

Supplier ability of delivering quality product or services is ranked among the top three important elements of supplier performance appraisal form. This finding is consistent with Watts and Hahn (1993) that the most important objective of supplier development for most firms is to improve suppliers' quality performance to compete in the market.

In the quality of product; factors of compliance to specifications, compliance to environment management system as stipulated in ISO14001, packaging, handling and completeness of documents such as drawings/data/test report that are prepared and delivered to buying firm are used to gauge the quality of product delivered.

In addition, measurement for the quality of services; factors of compliance to specification, workmanship and skill, documents that consist of drawings/ data/ test report, usage of tools and instruments, cooperation and responsiveness, compliance to safety procedure and quality of spare for the supplied materials are used to measure the quality of services rendered by suppliers.

Based on the interviews feedbacks, supplier's ability to comply with requirement of the specifications in term of performance and functionality is of utmost importance to ensure buying firm's plants reliability and it is recorded in ERMS for every job completed by supplier. This finding is supported by Fernandez (1995) whereby the quality characteristic of products and services being provided by the supplier is important in meeting customer requirements. The finding is in accordance to the literature review whereby according to Wynstra and Echtelt (2001), the effectiveness dimension of supplier contribution is related to how well the supplier performs compared to desired product outcome such as product reliability and quality.

If good measures are in place, quality issues will be minimal. This is in line with Norrie and Walker (2004) that structured measures on budget, quality, and on-time strategy will lead to greater depth in business case development and higher level performance. Therefore it is important for the supplier to supply quality product to ensure buying firm's plant performance and reliability.

### **Cost**

In term of cost, buying firm utilizes Total Cost of Ownership of product as the effective costing whereby initial cost of procuring the product is added with the cost of maintaining the product over its lifespan and it is compared to the equivalent product over the same period of usage. The other method used is through buying firm database of previous purchases and if no suitable comparison that can be applied the open-table method will be used in which supplier is to declare the real cost of

producing the product or cost incurred to perform the services and to be added with agreeable profit margin for supplier.

### **Delivery**

The study identified that timeliness of delivery is the third most important critical factor for the firm. This is an obvious need for supplier to meet delivery capability. Buying firm utilizes timeliness as the factor of measurement with the range of earlier or on time delivery, delay up to 10%, 20%, 30%, >30% for top to bottom performance respectively in the determination of the performance of suppliers for their products and services.

According to Fernandes (1995), delivery is related to the timeliness and location or logistics issues of the product or services. From interviews and site observations it is important for the supplier to ensure that they have enough resources to supply product or execute the works as scheduled. This finding is supported by Monczka et al., (2000) that sufficient resources from both parties must be provided throughout the product development process.

Delivery capability was frequently mentioned in literatures as the important criteria to select a supplier. This is supported by the interviews, whereby the respondents agree that it would be unacceptable if a supplier is able to produce a quality product but is unable to meet the target delivery as this will jeopardize the operational and reliability of the plant and for worst case this will disrupt the project timeline if the product is on the critical path timeline.

### **Capability of Suppliers**

While the quality, cost and delivery are constantly monitored for each project that a supplier has undertaken, which are categorized as the result-oriented or short-term target, at the same time activities as laid out by the anchor firm in the supplier development programme has also aimed at developing the suppliers for long term capability improvement which is for the supplier to produce products that are not only give value added to the buying firm but also able to penetrate domestic and international markets. This is in line with the finding by Krause (1995) that the new evolution of buyer-supplier relationship is the increasingly recognize of buying firm that there are potential contribution of their suppliers' performance to their own competitive position.

One classic example is the success story of one of the vendor that is the participant of the SDP which has started from a humble beginning of a small factory in Johor in 1996 and to-date has successfully achieved best vendor award for the buying firm in 2008, Most Collaborative Award 2008 and Best Potential Champion Award 2009 by national oil corporation, Petronas; currently produces high quality gas turbine filters that have received orders from top corporations among others Tenaga Nasional Berhad, Petronas Carigali Sdn Bhd, Petronas Gas Berhad and Nippon Oil Exploration (Malaysia) Ltd.; has expanded into international presence in Pakistan, Algeria, Iraq, United Arab Emirates, Bangladesh, Indonesia and Brunei; and is currently going into setting up a manufacturing plants in Oman and Bangladesh to distribute its products and services which includes among others repairs, rehabilitation upgrading of filter houses including supply, installation and commissioning of

new filter houses and filtration systems for oil and gas and power generation industries in filters. The above is supported by Terpend et. al., (2008) that buyers have started focusing on new additional areas of suppliers' capabilities such as international experience, continuous improvement capabilities, environment capabilities and acquiring suppliers' technical knowledge.

### **Summary of Discussion on Research Objective 2**

Krause (1995) reiterated that since the intense global competition during the 1980s and 1990s, supply management professionals have emphasized focus on keeping costs low, improving quality and ensuring on-time delivery. This finding is supported by Levi et al., (2004) where as organization's ability to produce a quality product at a reasonable cost and in a timely manner is heavily influenced by its suppliers' capabilities. This is further strengthened by Wynstra and Echtelt (2001) that involving suppliers in the product development is mainly to achieving a certain type of cost reduction. These efforts involve long-term cooperative efforts as have been implemented between the buying firm and its suppliers in the SDP mainly to upgrade the suppliers' technical, quality, delivery and cost capabilities and foster on-going improvements (Hahn, et al., 1990).

The finding on the comparison is that the manufacturing firm is just focusing their activities for short-term result-oriented QCD output against the firm under study and Proton which are for long-term quality, cost, delivery and capability of suppliers. Proton is more elaborate in supplier selection and is more aggressive in cost reduction exercise and technology collaboration which are for the other two firms to emulate.

Finally, the implementation of SDP in the firm of this case study is to build long-term suppliers' capability through process-oriented supplier development efforts, where measurable results do not come quickly (Hartley and Jones, 1997). Since the procedure and set-up in buyer firm and infrastructure on the suppliers' site are adequately placed, it is just a matter of time that with continuous and resilient efforts, SDP will generate more successful entrepreneurs supplying high quality global market products and services.

### **Conclusion**

The current level of implementation of supplier development programme is considered among the best in the GLCs together with Petronas in oil and gas, Boustead in marine industries and the firm has been receiving benchmark visits by other GLCs to look into its best practices for implementation at the visitors' organizations. The firm applies standard format for all participants for an effective implementation, easier tracking and monitoring which is through mandatory annual audit and unscheduled visits by the firm. Current programme implementation can be seen as two business entities working together towards achieving each other organizational goals. In line with that, the anchor company has taken the right steps with the setting-up of a specialized unit, Strategic Supplier Management that is responsible of registering, monitoring, auditing and guiding the suppliers to ensure the continual improvement in result-oriented approach on quality, cost, delivery and also process-oriented approach on improvement on the capabilities of the suppliers. Even though some of

the initiatives of the quality modules have yet to reach full implementation, however on the overall, the buying firm has implemented the SDP effectively and has successfully developed few suppliers that are able to penetrate local LFs and global markets.

In addition, the government has provided the basic policy with the issuance of the Red Book to GLCs, however active participation of government in term of full guidance and monitoring is to be improved to ensure the success of the propagation of the programme at more organizations

### Proposed Supplier Development Model

Based on the findings of this study, the researcher proposes the conceptual model for supplier development programme that involves government assistance as shown in Figure 2 below:

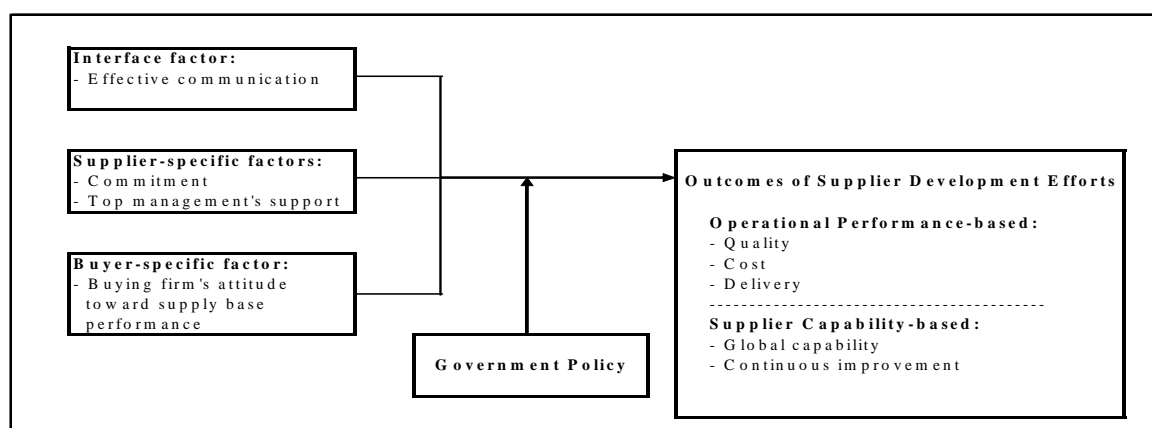


Figure 2 Proposed Supplier Development Model.

### Implications and Limitations of the Study

One of the finding of the research is that the number of suppliers that has reached the graduation level and has successfully penetrate global market is still few and majority of the suppliers are concentrating on supplying most of the products and services to anchor company and few other outside companies.

The shortcoming of this research is that the study was carried out only at one GLC company and thus may not represent the industry and GLCs as a whole. The research also does not have the sufficient data from the previous study in power utility industry and other GLCs for comparison purposes thus analysis is limited and comparison has only been made with automotive and manufacturing firms. In addition, due to the short duration of the research period, longitudinal study on the activities at the suppliers factory cannot be elaborately carried out therefore the selection was only done to suppliers that are participating in the activities in generation division thus omitting the suppliers at transmission and distribution divisions in the anchor company. The selection was done as the suppliers that will move forward in the participation with the buying firm related to global

expansion strategic initiative will mainly be the suppliers from generation division as the opening for businesses in overseas ventures is mainly still concentrating in that division.

## **Recommendations**

Based on the findings of the study, a few recommendations can be brought forward to four parties; anchor company, suppliers, government and researchers for future research in supplier development.

### **Recommendations for anchor company**

Based on the responses and inputs from the interviewees and researcher's observation during this study, there are few suggestion to further improve the implementation of the SDP to fully acquire the benefits of the programme.

The research reveals that there is a need for more internal communication between SSM and end-users at sites so that the activities undertaken by SSM are updated to the end-users as the later are the one that will deal with supplier in the actual job. SSM can update the latest performance of suppliers and their latest initiatives in term of new facilities or implementing of new systems at their plant. SSM can initiate BVDP Community network so that end-users, SSM and suppliers can share information and discuss issues whether through meetings or special IT discussion platform for the three parties to meet, share and discuss.

LF should encourage more direct involvement of technical or quality expert personnel for more frequent visit to suppliers' premises to solve technical issues of guidance for quality implementation.

LF especially SSM staff are encouraged to make benchmarking visits to other successful implementer of SDP in GLCs, Proton and in Japanese and Korean firms to increase their exposure and experience from the successful implementation at the later organizations. .

From the previous chapters, supplier development activities have successfully developed few suppliers that have been able to penetrate other large LFs and world markets. The experience and lessons learnt by the suppliers are beneficial to be shared with LF personnel that are performing business development activities and its subsidiaries that are producing products and services worldwide. This will enable to share the experience on how and initiative is undertaken for a successful venture that considers short-term process-oriented that focus on quality, cost and delivery and at the same time is to fulfill the requirements of the long-term capability for development and improvement towards becoming a resilient and competitive entrepreneurs and also for the success of the subsidiaries of the LF.

### **Recommendations for the suppliers**

Suppliers should utilize the existence of MEEA towards more effective communication and information exchange between the members, LF and the government agencies. Increase information exchange is vital for effective implementation of the program as the noted by Monczka (2002) that an important aspect of collaboration relationship is the ease of information exchange and a commitment to one another's success.



The research also reveals that other than operational performance related to quality, cost and delivery, LF have started focusing on international experience and continuous improvement capabilities (Terpend et. al., (2008). More suppliers should also quickly develop themselves in producing high quality products, at competitive cost and with minimal lead time for order that can penetrate other local LFs and world markets. Suppliers should increase their experience in international business dealing, participate in more overseas trade mission especially with LF and also improve entrepreneurial skills and products branding, packaging and advertisement.

### **Recommendations for the government**

The government ministry should overcome the inadequacy in staffing, and to increase exposure and experience of staff in implementing SDP. The right staffing and clear policy will assist better monitoring and enforcement of the implementation of the programme.

The government agency can contribute on better networking among suppliers, LFs and MNC by being the champion of networking efforts between them. Better networking can be attained with arrangement of benchmarking visits and organizing international conferences to provide opportunities with overseas entrepreneurs.

### **Recommendations for future research**

Studies on supplier development in Malaysia are still very shallow and not as extensive as in the West. It is highly recommended that there should be an extensive research in the area mentioned on every sector of the industries related to GLCs, R&D, MNC and other manufacturing firms so that better comparative analysis can be done on the differences in the results of the supplier development efforts undertaken by various industries with and without government assistance or intervention.

This study has given emphasis on evaluating the effectiveness of the supplier development efforts within a power generation company in Malaysia. All the four factors for the outcome of the effectiveness of the supplier development efforts have been found to be significant in predicting the relationship, however, these results may not be generalised to the rest of the other industries in Malaysia. As such, an empirical study covering all GLCs in various types of industries located within Malaysia will be beneficial in contributing towards better understanding of the factors contributing to the successful supplier development efforts within the country.

Besides the above four factors, the interview process has also pointed to a few other factors claimed to have affected the implementation of the supplier development activities in the case study firm. Future research should test the validity of these claims against different industries such as automotive, electrical and electronics, marine and oil and gas industry. Perhaps future study should also expand the existing study into exploring and updating the new initiatives being implemented in the buying firm.

The other areas that should be explored are on the utilization of R&D facilities and level of technology transfer and involvement in the globalization of product and services initiatives that are related to the supplier development programme.

## Conclusion

This research is designed to identify the level of implementation and then assess the effectiveness of the programme that is being implemented in a GLC that will add to richness of information and the updates in the research related to SDP.

From literature review and studies by past researchers, it was found that the level of implementation of the programme was still not at satisfactory level due to low commitment levels of the buying firm and suppliers especially at the manufacturing firms. However findings from this research indicated that most of the shortcoming issues addressed before have been attended to by the buying firm with the setting up of special department which manages the programme, comprehensive supplier selection process, the implementation of quality system that is globally applied in quality certified organizations, training, monitoring and assessment, supplier association and finally the collaborative efforts by both organizations in looking for opportunities for overseas ventures.

However, since the programme has yet to achieve its maturity stage, both the suppliers and the buying firm must make concerted efforts towards ensuring the success of the programme and review any shortcoming that may come along the way. An effective buyer-seller relationship requires sacrifices and a long-term efforts but potentially beneficial for both organizations and the government.

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## GOING CONCERN IN IAS FINANCIAL STATEMENTS IN A SITUATION OF ECONOMIC AND FINANCIAL CRISIS

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### **Abstract**

This paper aims to understand how listed companies provide disclosure of the aspect of going concern in a situation of financial and economic crisis.

The research was carried out through a qualitative analysis on disclosure on going concern of 2009 half-yearly consolidated financial statements of all companies listed in the regulated Italian market and, for those companies that presented critical aspects on going concern, through the same qualitative analysis of disclosure on going concern on 2008 consolidated financial statements and a quantitative analysis on indicators of the "health" of this companies.

The analysis conducted showed that only 10% of all listed companies analyzed highlights the presence of significant uncertainties which give rise to doubts about the entity's ability to continue its corporate activities in the foreseeable future. However, none of the surveyed companies said that the uncertainties and doubts are so significant that it is considered unlikely that the company will continue its operative existence for the foreseeable future, even if through the quantitative analysis we find that some of these companies show a negative consolidated equity situation that, symptoms of a corporation strongly in crisis.

The study focused on the disclosure provided by companies in application of IAS 1 on the entity's ability to continue its operative existence in respect of the principle of going concern to find how this disclosure is presented and if there is a correlation with the real "health" of the companies, particularly in times of great crisis like the current one.

**Keywords:** Economic/financial crisis, listed companies, IAS 1 financial statement, disclosure, going concern, audit firms.

### **Introduction.**

The current financial and economic crisis that permeates all sectors of the economy produces significant effects on enterprises and their ability to conduct business. As a result, companies may encounter difficulties in clearly representing risks and uncertainties being faced in the annual or interim financial statements.

In this context, those responsible for the correct representation and evaluation of the assumption of “going concern” are directors of the company and auditors.

Directors should consider if, in the following year, the company will be able to continue to operate as a functioning entity. If the outcome of this assessment is:

- positive: the valuation principles applied are those of the company in operation;
- negative: the valuation principles applied are those of the company in liquidation.

Auditors have a dual responsibility:

- assessing the reasonableness and correctness of the assumptions of the evaluation by directors;
- assessing the relevance of the risk of non-continuity.

In response to the sensitivity of the issue, the Supervisor – i.e. Bank of Italy, Consob and Isvap – enacted, on 6 February 2009, a Document (No.2) which aims to identify the information that companies must provide in their financial reports (e.g.: consolidated and separate financial statements, interim financial statements, etc.) on the following aspects:

- going concern;
- financial risks;
- verifying reductions for impairment;
- estimation uncertainties.

### **The Principle of Going Concern.**

The principle of going concern is the basic condition underlying the assessments aimed at the preparation of financial statements (annual and interim, separate and individual), regardless of whether such financial statements (with general purpose) are drafted according to National principles (Civil Code and the national accounting standards, issued by OIC – “Organismo Italiano di Contabilità”) or according to IAS / IFRS (issued by IASB and accepted by the European Union).

Indeed, in this regard:

- art. 2423-bis, paragraph 1, n.1) of the Civil Code (and OIC No.11) specifies that “the valuation of items must be made with prudence and on a going concern basis (...);”
- IAS 1, paragraph 25, states that “When preparing financial statements, management shall make an assessment of the entity's ability to continue as a going concern” and “(...) shall prepare financial statements on a going concern basis”.

This means that the principle of going concern is incompatible with intention or necessity to liquidate the entity or cease trading (or has no realistic alternative to do so).

A financial statement prepared on a going concern basis is a tool that allows readers to receive financial and economic information on a company's operation and on the continuity of business management.

The operation requirement, indeed, is absent in a company in constitution (as not yet started to operate), or in one that has already failed and in liquidation.

Therefore, if it is lacking the requirement of going concern (capable of sustainable existence), the terms of the financial statement would change, requiring the preparation of an "extraordinary" statement that allows the determination of liquidated assets.

Going concern requires, therefore, that management evaluates its "useful life" in the foreseeable future and, to do so, take into account all available information about the future, covering at least (but not limited to) twelve months from the date of financial statement (in this sense, see par. 26 of IAS 1).

The degree of analysis depends on each company's specific situation. In this sense, administration's assessment will formulate an opinion on the outcome of future events or circumstances which, by their nature, are uncertain[1].

In addition, IAS 1 requires consideration of all factors and circumstances that may be relevant to assess compliance on going concern (par. 26). To do this, the following are useful indicators to identify critical aspects[2]:

- financial indicators;
- management indicators;
- other indicators.

These indicators are briefly mentioned below.

Financial indicators:

- a deficit balance sheet or negative net working capital;
- fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets;
- indications of withdrawal of financial support by donors and other creditors;
- prospective or historical financial statements showing negative cash flow;
- negative impacts of the main economic and financial indicators;
- substantial operating losses or significant loss of value on assets that generate cash flow;
- absence or discontinuity in the distribution of dividends;
- inability to pay debts at maturity;
- inability to comply with the terms of loan agreements;

- changing forms of payment provided by suppliers from the condition "on credit" to the condition "payment on delivery";
- inability to obtain financing for the development of new products or for other necessary investments.

Management indicators:

- loss of executives or key directors and inability to replace them;
- loss of major market, franchise, license or principal supplier.
- difficulty in staffing or in maintaining the normal flow of supply from major suppliers.

Other indicators:

- capital reduced below legal limits or non-compliance with other statutory requirements;
- legal and tax litigation that, if unsuccessful, could result in compensation obligations with which the company is unable to comply;
- legislative change or government policies from which some adverse effects to the company are expected.

The IAASB (International Auditing and Assurance Board), through the publication of the document "Audit Considerations in Respect of Going Concern in the Current Economic Environment" on 20th January 2009, pointed out those indicators which, presumably, occur more frequently in the current environment. The selection of these indicators is shown in the table below.

<i>Financial indicators</i>	<i>Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.</i>
	<i>Indications of withdrawal of financial support by creditors.</i>
	<i>Inability to comply with the terms of loan agreements.</i>
<i>Management indicators</i>	<i>Loss of a major market, franchise, license or principal supplier.</i>
<i>Other indicators</i>	<i>Non-compliance with capital or other statutory requirements.</i>

*Table 1: Key indicators[3] for assessing the condition of going concern in the current context of economic crisis.*

## **Disclosure on the Going Concern Assumption.**

IAS 1, paragraph 25, expressly provides that, if the entity's ability to continue as a going concern is not included in the initial notes to the financial statement, the absence of this assumption shall be clearly indicated, since it has significant effects on the preparation of the financial statement.

In order to ensure clarity and comparability, going concern disclosure must be provided in the accounting policies section. In the case in which this is not possible, appropriate references must be made to the location of such information within the document.

As stated in the document specified by the Bank of Italy - Consob - Isvap No. 2 / 2009 in the paragraph relating to the going concern, at conclusion of the examination of indicators listed above, the directors may face the following scenarios:

1. Any uncertainties are not significant and has no doubt about going concern: The financial statement is prepared on the assumption of going concern and possible uncertainties encountered are described in the annual report, together with the events and circumstances that have led directors to consider them obsolete;
2. Uncertainties found are significant and raise significant doubts on the entity's ability to continue its operations in the foreseeable future; however, the going concern basis is deemed to be observed: The financial statement is prepared on the assumption of going concern and the significant uncertainties that create doubt of going concern should be explicitly detailed in the notes to financial statement;
3. Uncertainties and concerns are so significant that it is considered unlikely that the company will continue its operative existence for the foreseeable future: The financial statement is not written in a going concern basis and the reasons for the conclusion reached and the accounting policies adopted for the preparation of financial statements (in the absence of the assumption of going concern) should be clearly and completely described in the notes to the financial statements.

Based on the document provided by Bank of Italy - Consob - Isvap, the information regarding the principle of going concern may be alternatively provided in the notes to the financial statements or in the management report according to the context in which the company is incorporated.

### **Empirical Analysis of Disclosure on Going Concern.**

The objective of this work is to conduct an analysis of financial reporting of listed companies in the Italian market. The aim is to identify ways in which information relating to going concern are provided – with particular reference to critical aspects –in light of the current financial crisis, and identifying ways in which these listed companies have responded.

The analysis focused on 2009 half-yearly consolidated financial statements of all companies listed in the regulated Italian market and on 2008 consolidated financial statements of those companies that presented critical aspects.

In particular, the analysis is structured as follows:

1. Identifying companies that are critical on the principle of going concern;
2. Division of society according to the presentation of such disclosure in the notes to the financial statement or in the management report;
3. Identification of the main indicators used in assessing going concern;
4. Analysis of balance sheet liabilities;
5. Analysis of audit firms' reports.



The points listed above, are illustrated by dividing the discussion into the following parts:

1. Samples examined;
2. Results of the analysis on the principle of going concern.

### **Sample examined.**

The survey was conducted on the population of companies listed in the regulated Italian market; this population is equal to 321[4] companies.

The first part of the analysis was designed to identify companies that presented potentially critical information on the assumption of going concern; this part was conducted only on half-yearly financial reports as at 30 June 2009[5].

The analysis showed that the information relating to going concern is not provided by all companies, but by about a third of those examined. (Table 2).

	<i>N. of companies analyzed</i>	<i>% of companies analyzed</i>
<i>Companies providing information on going concern</i>	122	38%
<i>Companies that did not provide information on going concern</i>	199	62%
<i>Total</i>	321	100%

*Table 2: Information on going concern in 2009 half-yearly consolidated financial statements.*

As detailed in the table above, 62% of listed companies did not provide any specific information on the existence of the assumption of going concern. Paragraph 26 of IAS 1 states that “When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis”. In that sense, it is possible to deduce that the lack of information is due to the entity's ability to continue operations without any doubts or uncertainties as an entity operating in the foreseeable future.

The remaining 38% of listed companies report, instead, specific information related to going concern.

### **Results of the analysis on the principle of going concern.**

The next step of the analysis was to divide the companies based on information displayed in the notes to financial statements or in the interim management report by directors. In particular, depending on the information presented, they were divided into the following categories:

- 1) uncertainties are not significant and the entity has no doubts on going concern;
- 2) uncertainties found are significant and raise significant doubts on the entity's ability to continue its operations in the foreseeable future; however, the going concern assumption is satisfied;

3) uncertainties and doubts are so significant that it is considered unlikely that the company will continue its operative existence for the foreseeable future.

The above breakdown is shown in Table 3.

	<i>N. companies with disclosure</i>	<i>% companies with disclosure (n. 122)</i>	<i>% total surveyed companies (n. 321)</i>
<i>Companies with any uncertainties that do not generate significant doubts on going concern.</i>	89	73%	28%
<i>Companies with significant uncertainties that raise substantial doubt about the entity's ability to continue operations in the foreseeable future that, however, estimate the prerequisite of going concern is observed.</i>	33	27%	10%
<i>Companies with uncertainties and doubts so significant to be considered unlikely that the entity will continue its operative existence for the foreseeable future.</i>	0	0%	0%
<i>Total</i>	122	100%	38%

Table 3: Type of disclosure provided by the companies contained in 2009 half-yearly consolidated financial statements.

The above table showed that 28% of surveyed companies said that any uncertainties are not likely to cast doubt on the existence of the assumption of going concern. However, for 10% of the half-yearly financial reports analyzed, directors identify significant uncertainties which give rise to significant doubt on the entity's ability to continue its operations in the foreseeable future. It is in these contexts, where the current economic conditions have affected the results of the companies, that directors have the responsibility to carry out assessments with particular care on the existence of the assumption of going concern. In this regard, the analysis showed:

- ways in which information on the assessment of going concern is provided (e.g.: in the financial statement or in the management report, or both);
- the main indicators used by directors for the evaluation.

To this end, the analysis was conducted considering the 33 companies (10% of the population) for which there were significant uncertainties, which give rise to significant doubts about the presence of the assumption of going concern. The 2008 consolidated financial statements of those companies are also analyzed in order to compare the information (and any possible deterioration or improvement) with those recorded in the half-yearly financial reports.

Small differences between the consolidated financial statements and half-yearly reports are observable in regards to the location of the statement which provided information on going concern,. In fact, 39% of the consolidated financial statements observed provided information in both documents - the financial statements and management report. 36% provided information only in the

management report and, 24% provided information only in the notes to the financial statement. In the subsequent half-yearly consolidated reports, however, there is a substantial alignment for each of the case studies analyzed (about 33%) and, hence, an increase of 9% of companies that have chosen to provide the disclosures in the notes to financial statements.

The following Table 4 sets out the values mentioned above.

	2008 Consolidated financial statements		2009 Half-yearly consolidated financial statements	
	N. companies	% companies	N. companies	% companies
<i>Companies that provided information in management report</i>	12	36%	11	33%
<i>Companies that provided information in notes to the financial statement</i>	8	24%	11	33%
<i>Companies that provided information both in management report and in notes to the financial statement</i>	13	39%	11	33%
<i>Total</i>	33	100%	33	100%

Table 4: Disclosure about going concern: management reports or notes to financial statements?

In regards to the disclosure of indicators that directors have used in assessing going-concern, it is noted that not all companies make explicit reference to the indicators listed above in Table 1.

<i>Indicators</i>	2008 Consolidated financial statement		2009 Half-yearly consolidated report	
	<i>Frequencies N. on 33 companies</i>	<i>Frequencies % on 33 companies</i>	<i>Frequencies N. on 33 companies</i>	<i>Frequencies % on 33 companies</i>
<i>Inability to pay debts at maturity</i>	5	15%	11	33%
<i>Substantial operating losses</i>	7	21%	10	30%
<i>Strong financial strain</i>	7	21%	7	21%
<i>Inability to comply with the contractual terms of loans</i>	7	21%	7	21%

Table 5: Key indicators: comparison of consolidated financial statement and half-yearly consolidated report.

In this regard, Table 5 below shows the most used indicators that are clearly set out in the consolidated financial statements and in the half-yearly consolidated reports with respect to the assessment of going concern by directors. In this context, it is stressed that none of the 33 companies presented a specific analysis in the half-yearly consolidated report of the financial, management, and "other" indicators, as defined in the auditing Document No 570 on "Going Concern". The companies concerned, instead, expose the information related to the uncertainties without specific reference to these indicators. From this information you can still find an implicit indication to them.

When analyzing Table 5, it's possible to infer that the indicators most relied on by directors in the assessment on going concern (both in the consolidated financial statements and in the consolidated half-yearly reports) are essentially the same. In particular, the main indicator identified is the inability to pay debts at maturity (presented in the consolidated half-yearly reports by 33% of the sample, which is an increase of 18% compared to consolidated financial statements), confirming as expressed in the document of the IAASB (see above), quoting this indicator among those which are presumed present more frequently in the current market environment. Following, the indicators most used are substantial operating losses of 21% and 30% of cases, respectively in the consolidated financial statements and half-yearly consolidated reports, the strong financial strain and the inability to comply financial covenants of the loans (both equal to 21% of the sample analysis, both in consolidated financial statements and half-yearly consolidated reports). Analyzing the consolidated financial statements and half-yearly consolidated reports, we have seen, finally, that the companies' directors, still within the information related to the assessment of going concern, tend to describe the actions and how they intend to correct and/or overcome the uncertainties encountered, rather than elaborating on the analysis of indicators by which they established the existence of uncertainty of the entity's ability to continue its operation in the foreseeable future. Indeed, as indicated by the Document Bank of Italy - Consob - Isvap above, in these situations not only must the origin and nature of these uncertainties be described adequately, but also the arguments in support of the decision to draft the financial statement still confirming the assumption of going concern. Thus, adequate information cannot ignore the need to indicate the steps the company has taken or is taking to combat the effects of these uncertainties on going concern. In addition, directors need to explain adequately the arguments in support of the reasonableness of such solutions. Only through effective information transparency will it be possible to evaluate the reasonableness of the final conclusion on the adoption of the assumption of going concern.

In support of the foregoing reasoning, the analysis performed on the consolidated financial statements and half-yearly consolidated reports shows that directors have chosen to make the companies' planned initiatives the basis for the existence of the assumption of going concern. Among the main initiatives are observed: increases in capital, debt restructuring plans, plans of industrial reorganization, sale of non-strategic assets.

The next step of the analysis conducted is aimed at deepening the results arising from the examination of quantitative indicators on the "health" of the 33 listed companies under consideration. Indicators are compared in subsequent tables, such as:

- the amount of consolidated equity (Table 6);
- the amount of consolidated profit or loss (Table 7);
- the amount of solvency (Table 8).

The aim is to consider the evolution undergone in the period considered, i.e. by 2008 consolidated financial statements to the 2009 half-yearly consolidated reports.

	2008 Consolidated financial statements		2009 Half-yearly consolidated report	
	N. companies	% companies	N. companies	% companies
<i>Companies with positive equity</i>	29	88%	26	79%
<i>Companies with negative equity</i>	4	12%	7	21%
<i>Total</i>	33	100%	33	100%

Table 6: Equity: a comparison of consolidated financial statements and half-yearly consolidated reports.

Table 6 above reveals that 12% of consolidated financial statements report a negative consolidated equity situation that, in the six months in analysis, suffered a further deterioration of 9% to a value equal to 21%, symptoms of a corporation strongly in crisis [6].

This fact is confirmed by the subsequent Table 7 on the consolidated profit or loss of the companies concerned. You will find that only 9% of companies reported a consolidated profit in the consolidated financial statements, and all companies in the sample observed consolidated loss in the half-yearly consolidated financial statements, confirming the fact that the main indicators given by directors in the evaluation of going concern in the consolidated financial statements and half-yearly consolidated reports were substantial operating losses (see Table 5).

	2008 Consolidated financial statements		2009 Half-yearly consolidated reports	
	N. companies	% companies	N. companies	% companies
<i>Companies with profit</i>	3	9%	0	0%
<i>Companies with loss</i>	30	91%	33	100%
<i>Total</i>	33	100%	33	100%

Table 7: Consolidated profit or loss: a comparison of consolidated financial statements and half-yearly consolidated reports.

The last quantitative indicator considered is solvency, an indicator of capital strength, which is determined by comparing equity to the total capital acquired of a company.

% Solvency	2008 Consolidated financial statements		2009 Half-yearly consolidated report	
	N. companies	% companies	N. companies	% companies
$< 0\%$	4	12%	7	21%
$0\% \leq x \leq 5\%$	6	18%	5	15%
$5\% < x \leq 10\%$	2	6%	3	9%
$10\% < x \leq 20\%$	6	18%	12	36%
$> 20\%$	15	45%	6	18%
<i>Total</i>	33	100%	33	100%

Tab. 8: Financial independence: a comparison of consolidated financial statements and half-yearly consolidated reports.

In the following Table 8, solvency is determined by dividing the results into 5 categories - between 0% and 20% - in order to offer a more detailed illustration of the analysis carried out.

Per Table 8 above, we observe that, with regard to the consolidated financial statements, only 45% of the companies have a solvency more than 20% (stating, furthermore, that none of these companies exceeds 49% as solvency). This means that the remaining 55% of surveyed companies shows a severely unbalanced financial structure. This situation does not improve with the analysis of half-yearly consolidated reports, as the proportion of companies with a solvency more than 20% down to 18%, with a decrease compared to consolidated financial statements of 27%. Consequently, the percentage of surveyed companies that show a seriously unbalanced financial structure rises to 82%.

The last step of the analysis conducted in this work regards the examination of reports that audit firms have prepared for both the 2008 consolidated financial statements and the 2009 half-yearly consolidated reports, with the objective to identify, first, any inhomogeneity of information between the auditors' report and the financial statement (or in the management annual report) by directors on the evaluation of the assumption of going concern and, secondly, the possible judgments' evolution made by auditors.

Regarding the first point, comparisons between the disclosure provided in the auditors' report and in the financial statements have not identified non-homogeneity. However, with regard to the possible alterations made to the opinion expressed by auditors over the period considered, the following Table 9 summarizes the types of judgment recorded and the percentages of frequency in the consolidated financial statements and half-yearly consolidated financial statements.

<i>Type of judgment</i>	<i>2008 Consolidated financial statements</i>		<i>2009 Half-yearly consolidated reports</i>	
	<i>N. companies</i>	<i>% companies</i>	<i>N. compagnie</i>	<i>% companies</i>
<i>Positive</i>	6	18%	0	0%
<i>Emphasis of matter on a going concern assumption</i>	20	61%	28	85%
<i>Inability to judge</i>	7	21%	5	15%
<i>Total</i>	33	100%	33	100%

*Table 9: A comparison of audit firms' report to the consolidated financial statements and to the half-yearly consolidated financial statements.*

Analyzing the above table, there is a worsening trend in the opinions, with the cancellation of the positive comments in the half-yearly consolidated reports (18% in the consolidated financial statements), and an increase in emphasis of matter about the assessments made by directors on the going-concern basis, which increased from 61% to 85% of cases analyzed.

Finally, it should be noted that in 24% of cases, the auditors claim, in their reports to the half-yearly consolidated financial statements, to be unable to comment on the compliance of the condensed half-yearly consolidated financial statements to International Accounting Standard applicable to interim

financial reporting (IAS 34), considering the many significant uncertainties. These findings are further confirmation of what is stated in the previous analysis by the indicators chosen for the qualitative and quantitative assessment of the disclosure related to going concern.

## **Conclusion.**

The empirical analysis on the population of companies listed in the regulated Italian market has helped to understand and assess the actual impact of the economic and financial crisis.

The analysis conducted showed that only 38% of surveyed companies disclose information on critical issues concerning the verification of the assumption of going concern, and of these 38%, 27% (and, therefore, only 10% of all listed companies analyzed) highlights the presence of significant uncertainties which give rise to doubts about the entity's ability to continue its corporate activities in the foreseeable future.

However, none of the surveyed companies said that the uncertainties and doubts are so significant that it is considered unlikely that the company will continue its operative existence for the foreseeable future, as this would involve the preparation of financial statements with different accounting principles (e.g. for liquidation). In particular, following with the analysis of the indicators that point to the presence of problems relating to carry out business, it was found that the most widely used indicator is the one that indicates the firm's ability to pay its debts at maturity.

In support of this argument, consolidated equity, consolidated profit or loss, and solvency values were analyzed, from both 2008 consolidated financial statement and 2009 half-yearly consolidated reports, and confirmed the substantial disequilibrium in the financial structure of most of the companies reporting significant uncertainty about the firm's ability to continue its activities. Typically, the comparison between 2008 consolidated financial statements and 2009 half-yearly consolidated reports showed a progressive worsening of companies that already presented uncertainties on going concern.

Finally, analyzing the reports of audit firms, there was a substantial similarity with respect to the disclosure reported by directors in evaluating the going-concern basis.

## **Notes**

[1] See also the Document Bank of Italy/CONSOB/ISVAP n. 2, enacted on 6 February 2009.

[2] An example of these indicators has been drawn up within the definition of the auditing Document 570 on the "Going Concern" recommended by Consob Resolution No. 16231 of 21 November 2007. In particular, they are given in paragraph 8 of document 570.

[3] From paragraph 7 e 8 of International Standard on Auditing (ISA) 570 "Going Concern".

[4] The following companies have been excluded from the analysis:

- Cell Therapeutics: foreign corporation that is not comparable because it applies U.S. GAAP (SFAS);

- Trevisan Cometal: companies that did not submit half-yearly financial reports. The last available document is the consolidated interim financial report as at 31 March 2009. On 7 August 2009, the company's Board of Directors, in fact, didn't approve the interim financial statement because it noted that there had been no condition that would allow the "going concern" (no later than 5 August 2009 the company should sign the restructuring of its debt agreement). The Board of Directors has therefore approved the company's application for admission to the procedure for the composition with creditors, which was accepted by the Court of Verona by decree of 13 November 2009.

[5] In this regard, it should consider the following elements:

- A.S. Roma, Danieli & C., Digital Bros, Juventus FC, Mediobanca, Meridie e S.S. Lazio: financial year closes on 30 June 2009, therefore, were considered the most recent half-yearly financial reports available at 31 December 2008;
- Damiani: financial year close on 31 March 2009, therefore, was considered the most recent half-yearly financial report available at 30 September 2009;
- Gruppo Coin: financial year close on 31 July 2009, therefore, was considered the most recent half-yearly financial report available at 31 January 2009;
- Aicon: financial year close on 31 August 2009, therefore, was considered the most recent half-yearly financial report available at 28 February 2009;
- Screen Service Broadcasting Technologies, Mittel: : financial year closes on 30 September 2009, therefore, were considered the most recent half-yearly financial reports available at 31 March 2009;
- I Viaggi del Ventaglio: financial year close was 30 October 2009, therefore, the most recent half-yearly financial report available was 30 April 2009.

[6] The consolidated financial statements that present a negative consolidated equity refer to the following companies: Arena, I Viaggi Del Ventaglio, Snia and Socotherm. The half-yearly consolidated financial statements that present a negative consolidated equity refer to the following companies: Arena, I Viaggi Del Ventaglio, Risanamento, Snia, Socotherm, Tiscali and Yorkville Bhn.

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## FORCES BEHIND EUROPEAN TOURISTS LOYALTY TO TUNISIA: APPLIED ORDERED LOGIT MODELS

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### Abstract

According to Chemli et Mzali (2009) there is a clear relationship between European tourists' loyalty to Tunisia and their perceived image of the country as a holiday destination. In their results, the main explanatory factors positively influencing loyalty were the high temperature, 'golf', big hotels and health and spa. They also stated that the images of 'camels' and 'desert' impact negatively on the British respondents' loyalty to Tunisia. However, their research study considered a loyal tourist as the one who previously visited and was in Tunisia by the time of the survey.

The actual research study aims to identify the negative and positive forces behind European tourists' loyalty to Tunisia as a holiday destination. The empirical research consists of the application of an ordered Logit model, used to estimate the relationship between the dependent variable (Degree of loyalty) and one or more independent and explanatory variables (personal characteristics, perceived elements of Tunisia, and push and pull factors). The degree of Loyalty has 3 different values, as being: 0 (tourists who were in Tunisia by the time of the survey and do not intend to revisit), 1 (first timers who intend to revisit Tunisia), and 2 (tourists who visited Tunisia previously, were in the country by the time of the survey, and consider Tunisia as a potential future holiday destination).

The findings suggest that the ordered Logit model was statistically validated for the four studied markets with values of the probability (LR statistic) equal to 0 for French, German, Italian and British; and Mc Fadden R-squared being respectively  $R^2$  French= 0.07,  $R^2$  German= 0.08,  $R^2$  Italian = 0.21, and  $R^2$  British= 0.14.

The results collected from the four ordered Logit models, conclude that the perception of Tunisia as 'Big hotels and health and spa' impact positively on French and Italian tourists being loyal to the country. In addition, German tourists' degree of loyalty depends on 'their degree of satisfaction', 'friendly locals' and 'the all-inclusive formula'. Italian tourists are also loyal to Tunisia to visit other tourism zones and to explore Sahara and nature, and not for seaside tourism. Finally, the perception of Tunisia as a 'cheap seaside tourism destination' is the force behind British tourists' loyalty to the country.

**Keywords:** Degree of Loyalty, European tourists, perception, Tunisia, Ordered Logit model

## Repeat Behaviour and Tourists' Loyalty

Travel motivation is arguably one of the most important areas of tourism research to better comprehend tourists' behaviour. According to Jang et al. (2004), knowledge of tourists' motivations is also critical in order to predict future travel patterns. Motives drive people to act in a specific way. These may be characterised as positive driving forces, which energise individuals to travel to specific destinations, or negative forces such as fears or aversions, which lead individuals not to travel to destinations (Gilbert et al., 2004).

The classification and analysis of tourists continues to be an important research theme (Bargeman et al., 2002). Iso-Ahola (1982, 1989) suggests that it is a central theme in tourist behavioural studies to identify motivational factors that are the reasons for and which give direction to behaviour. Iso-Ahola (1989) proposes two basic motivational dimensions of leisure or tourism behaviour as being 'escaping' and 'seeking', which simultaneously influence people's leisure behaviour (Kim et al., 2003a). In general, motivation occurs when an individual wants to satisfy a need, with Bromley (1990) arguing that motivation refers to a psychological condition to which an individual is oriented towards in trying to achieve a kind of fulfilment.

Goossens (2000), claims that a motive implies an action and that an individual is moved to do something. In addition, Motivation theorists (Kozak, 2002; Chang et al., 2006; Bansal et al., 2004; Correia et al., 2007) conclude that individuals constantly strive to achieve a state of stability or a homeostasis. Yet their homeostasis is disrupted when they are made aware of a need deficiency. This awareness creates wants. However, to be motivated to satisfy a need, an objective must be present (Goossens, 2000).

People's desires, motivations, degree of commitment and involvement, will dictate the general latent demand for vacations (Bargeman et al., 2002). Furthermore, preference sets and destination attributes can be matched to specific psychographic profiles of tourists (Kozak, 2001). For example, tourists looking for escape and relaxation prefer destinations where nightlife, entertainment and water sports are provided, whereas the social status tourists prefer golf, tennis, fishing, nightlife and entertainment, shopping and gambling (Moscardo et al., 1996; Witt et al., 1992 and Uysal et al., 1993). Equally, as destinations are often multi-products, some might be visiting a destination in the summer season just to relax, whilst others in the winter seek adventure (Kozak, 2002). As motivation is a dynamic concept, it may vary from one person to another, from one market segment to another and from one destination to another (Uysal, 1993 and Witt et al., 1992).

Jang et al. (2004) concentrate their research upon older travellers and assert that understanding motivational variations with regards to socio-demographic characteristics should help tourism related industries to develop effective marketing programmes to attract older travellers. According to Kim et al. (2003), older travellers weigh-up and consider many travel features before making their travel decisions. In addition, as seniors often require the reassuring service of travel agents to plan the details of their travel, knowledge of the demographic background of seniors, their motivations and concerns to travel should enhance the agent's understanding of the market needs. Jang et al., (2004),

claim that understanding 'push and pull' motivations will also allow travel service providers to be ready to meet or even exceed what travellers want. This leads to the conclusion that successful tourism destinations should concentrate their research on people's motivations in order to meet tourists' expectations.

Dann (1981) claims it is understandable that many research studies focus on pull motivational factors, since they represent the attractiveness of a tourism destination, which in turn induces the decision to purchase the destination and to travel there. He argues that the pull factors of a tourism destination such as natural resources and friendly locals respond to and reinforce the push motivation factors. Mazzarol et al. (2002), claim that 'push and pull' factors operate within a host country to make that country relatively attractive to international tourists. George (2003) notes that many factors are involved in the tourist's decision-making process, some of these factors include 'economic considerations', 'accessibility', 'climate', 'changes in consumer's trends', and the amount of 'push' and 'pull' by intermediaries along with 'the effectiveness of marketing efforts to promote the tourism destination'.

Numerous researchers (Schmoll, 1977; Mayo et al., 1981; Mathieson et al., 1982; Moutinho, 1987 and Middleton et al., 2001) have elaborated on models of the decision-making process. Such models share a common characteristic, in that the traveller decision-making process is approached as a functional decision-making activity that is influenced by a number of psychological and non-psychological variables. Moutinho's (1987) process of tourist behaviour model has five stages: information, purchase, use, evaluation and disposition of goods and services. The first stage seems to be most influential when purchasing tourism products (destination) with tourists differing in the information sources they use (Molina et al., 2006).

The latter might be interpreted as 'a stimulus response model of buyer behaviour', such as that presented in Figure1. This model (Middleton et al., 2001), consists of six different processes. Middleton et al. (2001) claim that the first process involves the variety of products available in a destination including the different tour operators' offerings. The second stage involves operators using both formal and informal communication channels along with the media, in attempting to persuade prospective buyers through paid-for advertising, brochures, sales promotion techniques, public relations activity and the Internet. Unpaid activity focuses on the 'word of mouth' phenomenon, the extensive information accessible to individuals informally through their family, friends and the group of people with whom they interact at work and socially (Middleton et al., 2001).

The third process is composed of the perception filters in the buying decision process, which serve in practice to suppress much of the available information and to highlight specific parts, often distorting it in the reception process. Therefore, the message the marketer sends is not necessarily the same as the message the potential tourist receives. The fourth process as presented by Middleton et al. (2001) comprises the core elements of any individual behaviour model, namely needs, wants and goals; socioeconomic and demographic characteristics; psychographic attributes; attitudes and motivations, which constitute the dynamic drivers in the model. The fifth process notes the outputs of

the decision process that are of the most direct concern to producers, including which type of product, brand, price, at what time and through what distribution channel. Action on purchases is directly linked to motivations, which in turn is linked to the tourists' characteristic (Moutinho, 1987).

Tourist motivation may be influenced and affected through marketing decisions, especially product design and the ways products or services are presented to prospective purchasers (Swarbrooke et al., 1999). The last stage within the model developed by Middleton et al. (2001) encompasses post-purchase and post-consumption feelings, which could influence future attitudes towards the actual product. If the product is highly satisfactory, the probability of repeat visits and the likelihood of a good 'word of mouth' recommendation will be high (Middleton et al., 2001).

Baloglu et al. (1996) and Gursoy et al. (2003) view motivation as one of the most important variables in explaining tourists' behaviour, because it is the impelling and compelling force behind all behaviour. Therefore, understanding the motivations of tourists may enable a better understanding of their involvement. However, Suh et al. (2004), whose research focuses on Seoul, with the populations concerned being European, North American, and Japanese, empirically identify that more specific decisions and choices are determined by a traveller's personal preferences. These are influenced by a plethora of factors, such as the opportunity to experience new cultures, food, shopping, accommodation locations, visits to cultural sites, opportunities to visit unique sites, free time for preferred activities and opportunities for entertainment.

Pizam et al. (1999), in their assessment of the first Middleton's (1988) Process Stimulus Response model, claim that Middleton sees motivation as the dynamic process in buyers' behaviour, bridging the gap between the felt need and the decision to act or to purchase. Pizam et al. (1999) emphasise that actions on purchase are linked directly to motivations, which in turn are linked to the buyer's characteristics. Middleton (1988) also considers product satisfaction as the most powerful means of influencing future purchases, which provides a link between post-purchase and the decision process.

Even though involvement and its importance in tourist decision-making processes are well articulated, the same factor related to international destinations has received relatively little attention. The tourist involvement profile is regarded as one of the most important determinants of customer behaviour and as a central point in explaining the decision-making process (Gursoy et al., 2003). Gursoy et al. (2003) produce three dimensions for tourists' involvement, namely: interest/pleasure, risk probability and risk importance. Similarly, McWilliam (1997) associates four dimensions to the involvement profile namely the perceived risk (which can be financial, physical, psycho-social or time-generated risk), the expression of the tourist's own personality or mood (usually referred to as value-expressiveness or self-concept); the perceived importance and the hedonic value of the stimulus or object.

There is a strong link between customer loyalty and organisation profitability (Hallowell et al., 1996). Indeed, this relationship might explain the relative success (or lack of success) of many companies in various industries such as the tourism industry. Therefore, destination tourism managers have to place a crucial importance upon tourists' loyalty (Crompton, 2000).

Alegre et al. (2006), test several hypotheses on tourist expenditure patterns with data from one of the Mediterranean's leading 'sun and sand' destinations. Their results indicate the explanatory power of repeat visitation, knowledge, and quality of a place as a motivation for tourist expenditure. In accordance with their better knowledge, repeat visitors spend less both in the country of origin and the destination itself, in comparison with spending by first-time visitors. On the other hand, preference for quality and sense of place attachment implies a higher overall expenditure.

Bosque et al. (2006) in conducting research into UK travel agencies, conclude that managers should understand satisfaction as an essential determinant of loyalty. They assert that user satisfaction not only generates loyalty, but also leads to positive word-of-mouth communications encouraging potential users to request information. In addition, Bigné et al. (2005), compare two competing models of the impact of emotions on satisfaction, willingness to pay more and loyalty. According to their findings, the strength of the direct impact of pleasure on loyalty is similar to that of satisfaction. It is an indication that the (physiological) experience of pleasure by itself creates loyalty so that both the promise of pleasure and satisfaction need attention. It may, thus, be helpful to assist tourists in remembering the experience through after-sales services such as brochures and certificates, which continue the physiological pleasure in order to bolster the word-of-mouth.

Castro et al. (2007), develop an innovative model for the evaluation of the effect of a destination's image on the loyalty intentions of tourists (a relationship that is mediated by service quality and/or tourist satisfaction). This new model considers that the relationship between satisfaction and loyalty is conditioned by market heterogeneity and differences among tourists. Castro et al. (2007), claim that the influence of a destination's image on the future behaviour of tourists is based mainly on satisfaction and service quality. Baker et al. (2000) argue, in their research on tourists' satisfaction and behavioural intentions, that high performance quality and levels of satisfaction are perceived to result in increased loyalty and future visitation, greater tolerance of price increases and an enhanced reputation. In addition, Kim et al. (2003), claim that after they have visited a place, tourists tend to gain more complex cognitive knowledge about it. This makes people change their images of a destination.

Pearce (1982) believes that tourists visiting destinations such as Greece and Morocco undergo a change of image as a result of a visit, thus according to Glenn (1998), the actual experience of a destination would seem to alter the image previously held of this destination. Chen et al. (2001), define operational destination loyalty in operational terms as the level of tourists' perceptions of a destination as a recommendable place. Greater satisfaction will be generated where expectations coincide not only with perceptions but also with interests and attitudes (Wheeler, 1995).

Expectations can be influenced by different elements such as past experiences, the customer's self perceived competency, the service of other providers from whom the customer can obtain service, what customers hear from other customers and external communication from the service provider. The latter include a wide variety of direct or indirect messages conveyed by service firms to customers (Faché, 2000).

Ryan (1995) claims that past experiences change the expectations of a place and that such expectations shape motivation. Hence the motivation to enjoy becomes a goal for tourists, and in the opposite case behaviour regarding repeat visits might also be affected. Similarly, Yoon et al. (2005), in examining the effects of motivation and satisfaction on destination loyalty, confirm the existence of a critical relationship between push/pull motivations and destination loyalty. Accordingly, this suggests that it is for destination managers to make greater investments in their tourism destination resources in order to continue to enhance the tourist experience.

Caneen (2004) identifies that tourist's return to a country due firstly, to their desire to reduce risk and the assurance of dealing with nice people in a comfortable, and 'at home' environment; and secondly the desire to see sights missed in previous visits and to introduce friends and family to the destination. Thompson et al. (2007), confirm that the availability and perceived quality of local transport at tourist destinations has latterly been established as exercising an influence on tourist experience, overall satisfaction and repeat visitation. McIntosh (2004) also adds that a traveller can become attached to a landscape as a result of a past experience, or simply attracted by the placement of a tourism destination in a film (Morgan et al., 1998), such as the case of Tunisia in 'Star Wars', or in 'the English Patient'. According to Hudson et al. (2006), in an increasingly competitive marketplace, destination placement in films and TV shows is an attractive marketing tool that succeeds where traditional marketing effort cannot, therefore this may imply repeat visitation to the destination and hence customer-loyalty.

According to Chen et al. (2001), however those who do not return to a particular destination they have previously visited may simply want to seek different travel experiences in new destinations and yet maintain loyalty to the previously visited destination. Consequently, repeat visitation may not truly represent tourist loyalty.

Many destinations adopt a market penetration strategy (Ansoff, 1988) focusing on attracting current markets to consume more current products, therefore attracting tourists to visit more than once (Lehto et al., 2004), however to successfully implement such strategies, an understanding of why some individuals choose to visit a certain place on multiple occasions, while others ever satisfied, never return, is required. Additionally few destination managers know whether their customers are repeat visitors, how often they have previously visited and with what regularity they come (Oppermann, 1998).

Woodside et al. (2000), distinguish between two categories of tourists, first time visitors and repeat visitors. The former is a homogeneous category, whereas repeat visitors are not, as they could either return year after year or several times a year to the same destination, or they could have visited only once before many years ago. Oppermann (1997), in a study of the destination loyalty of New Zealand residents, used only the behavioural aspect rather than a combination of both attitude and behaviour. He claims that past behaviour is a good predictor for future behaviour and that this may allow destination marketing organisations to better predict the purchase probability of their markets. Oppermann (1998) raises the notion of the travel horizon, which depicts levels of travel experience or

exposure to a different country or culture by the individual. He claims that the higher the travel horizon, or the further one has travelled, the more exposed one has been to a different environment, thus the more experienced the traveller becomes, and the higher the risk taken has been.

With regards to destinations, compared with ordinary products and goods, and where the repeat purchaser expects exactly the same item with consistent quality, destinations have several unique aspects. For example the quality of the holiday experience can vary based upon the performance of the service providers. Additionally, the expectations of repeat tourists may change with experience. When they return to a place, it is not known whether they visit the same attractions or participate in the same or different activities (Lehto et al., 2004). Furthermore, Chen et al. (2000), find that Korean travellers' loyalty was significantly influenced by three choice behaviour attributes; the perception of cultural differences, safety, and perceived convenience of transportation, and not with past experiences.

### Study Methods

**Sample Selection.** As the questionnaires were designed to understand European degree of loyalty to Tunisia, the sample was drawn from one major population: the total number of European arrivals to Tunisia in the year 2005 was 3,869,035 (Le Tourisme Tunisien en Chiffres, 2005). According to statistics collected from 'Le Tourisme Tunisien en Chiffres (2005), 65 percent of the total number of European arrivals to Tunisia in 2005 are tourists from the UK, Germany, Italy and France. Therefore, it has been decided to select the sample from these four markets, as they represent the major four European markets for Tunisian tourism.

**Sample Size.** For this research, an appropriate sample was taken from the broader sample populations comprising UK, Italian, German and French visitors to Tunisia, to ensure a degree of confidence in conclusions drawn.

In addition, Saunders et al. (2003), assert that it is important that any sample in research is large enough to give the survey necessary confidence in the data analysis. According to statistics from the National Tunisian Tourism Board, 3,869,035 European visited Tunisia in the year 2005, of which 46.07 percent were French tourists, 22.52 percent German, 12.83 percent British and 18.58 percent were Italian visitors (Le Tourisme Tunisien en Chiffres, 2005). Therefore, in assuming a sampling percentage of 0.05 percent with a response rate of 100 percent (asking people to fill in the questionnaires till we get into the right number) the sample size for the questionnaires in Tunisia should be:

$$S = \text{sample size} = \text{No of arrivals}^7 \text{ to Tunisia in 2005} \times 0.05 \text{ percent}$$

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<sup>7</sup> French, German, Italian and British visitors to Tunisia in 2005



The sample population was selected by means of random sampling, through the selection of British, German, French and Italian tourists at hotels, airports and attractions. Due to the fact that summer represents the high season of tourists' visitation (Le Tourisme Tunisien en Chiffres, 2005), the timing of the questionnaire survey was from June to December 2007.

According to statistics, 93.47 percent of the total number of British visitors in 2005, were located in the tourism zones of Nabeul – Hammamet, Yasmine Hammamet, Sousse – Kairouan, and Monastir – Skanes, whilst 85.86 percent of German visitors in 2005 was concentrated in the same tourism zones previously mentioned for the British market including the zone of Djerba – Zarzis. Additionally, most of the Italian tourists to Tunisia in the year 2005 were located in the zones of Nabeul – Hammamet (including Yasmine Hammamet), Sousse – Kairouan and Djerba – Zarzis (74.37 percent of Italian visitors in 2005). Finally, French tourists to Tunisia in 2005 were concentrated in the tourism zones of Djerba – Zarzis, Hammamet – Nabeul (including Yasmine Hammamet) and Monastir – Skanes (82.17 percent).

Hence, 163 questionnaires were distributed in the major UK tourist zones of the country, namely; Nabeul – Hammamet (including Hammamet), Sousse – Kairouan, and Monastir – Skanes, with, 45 questionnaires being distributed in Nabeul – Hammamet, in the Yasmine Hammamet resort, during visits to 'Sephir hotel', 'Hammamet village' and the 'Bel air' hotels in the southern part of Hammamet, and with 33 questionnaires being distributed in Monastir-Skanes, in the Monastir airport, whilst British respondents were checking-in. Finally, 85 questionnaires were distributed in various tourist areas around Sousse, such as 'Port el Kantaoui' and 'el Medina'.

Some 585 questionnaires were distributed to French respondents in the major French tourists' sites in Tunisia, with 300 questionnaires being distributed in the tourism zone of Djerba – Zarzis, in Houmit Essouk and in various hotels in the region. A total of 190 questionnaires were distributed in the zone of Nabeul – Hammamet (including Yasmine Hammamet), in Hammamet North (Hotel le Président, Hammamet Hotel, and Hotel Hammamet Azur Plaza), in Hammamet South (Behia Beach, and Hotel Phoenicia). The last 95 questionnaires were distributed in the tourism zone of Monastir – Skanes, in Habib Bourguiba airport in Monastir.

A total of 98 questionnaires were distributed to German tourists in the tourism zone of Nabeul – Hammamet, 95 questionnaires in Djerba – Zarzis, and 93 questionnaires in Sousse – Kairouan. Finally, in order to collect data from Italian respondents, 86 questionnaires were distributed in Nabeul – Hammamet, 118 in Djerba – Zarzis and 32 in Sousse – Kairouan.

**Questionnaire Process.** Questionnaires handed out within the different tourism regions were distributed to the 4 selected respondent markets.

Most of the questionnaires handed out in Tunisia were distributed in Hotels, airports, and along avenues from July 2007 to October 2007. The selection of hotels was based on the nationalities of tourists using them, and was identified through European tour operator's websites. Hotels in the

different tourism zones were contacted in order to gain authorisation to access and to distribute questionnaires.

Ordered logit Model: The Ordered Logit model is used to estimate a relationship between a dependent variable (Y: Degree of loyalty) and one or more independent variables (X). The underlying process to be characterized is:

$$y^* = \mathbf{x}'\beta + \varepsilon$$

$$Y = \begin{cases} 0 & \text{if } Y^* \leq 0 : \text{Tourists who were or not in the country previously and do not intend to come back} \\ 1 & \text{if } 0 < y^* \leq \mu_1, \text{ First timers who intend to come back} \\ 2 & \text{if } \mu_1 < y^* \leq \mu_2: \text{Tourist who previously visited Tunisia, were in the country by the time of the survey and intend to come back} \end{cases}$$

Where  $y^*$  is the exact but unobserved dependent variable (Loyalty of European tourists).  $X'$  the vector of independent variables' used in the ordered Logit model for 'Degree of loyalty', is presented in Table 1. The explanatory variables for 'loyalty' are the major perceived elements, the motivation factors encouraging French, Germans, Italians and British to revisit Tunisia, their degree of satisfaction, Social, Demographic and Psychographic profile of respondents and whether they previously visited the country.

### Study findings

The estimation of tourists' degree of loyalty to Tunisia by means of the ordered Logit model is to identify the factors behind French, German, Italian and British loyalty to Tunisia. Therefore, this model aims to present  $Y$  (tourists' degree of loyalty) as a function of  $X$  (the perceived images of Tunisia, motivation factors, degree of satisfaction and social, psychographic and demographic characteristics).

Statistical Interpretation. Mc Fadden R-squared for French Respondents in Tunisia (Degree of Loyalty to Tunisia)

$R^2_f = 1 - \frac{\text{Log (Lu)}}{\text{Log (LR)}} = 1 - \frac{-507.6502}{-546.4534} = 0.07$
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The Mc Fadden R-squared tends to 0.4 and  $LR = 77.60654 > \chi^2$  (as it is read on the table for 7 degrees of freedom), therefore, the model is statistically validated.

According to table 1, in 60.684 percent of the cases, 'Degree of loyalty' is correctly expected. Therefore this implies that the error rate is low..

Mc Fadden R-squared for German Respondents in Tunisia (Loyalty to Tunisia)

$$R^2_g = 1 - \frac{\text{Log (Lu)}}{\text{Log (LR)}} = 1 - \frac{-239.2530}{-261.2659} = 0.084255$$

$R^2_g$  in the model estimating German loyalty to Tunisia, tends to 0.4,  $LR = 44.02 > \chi^2$  (as it is read on the table of the Chi-Square for 3 degrees of freedom) and the probability of the  $LR=0$ ; therefore, the model is statistically validated. In addition, as shown in Table 2, overall, the estimated model correctly predicts 58.042 percent of the observations

According to the model estimating Italian loyalty to Tunisia,  $LR = 104.1829 > \chi^2$  (as it is read on the table of the Chi-Square for 8 degrees of freedom). In addition, as the Mc Fadden  $R^2_i = 0.21$ , which tends to 0.4, and the estimated model predicts correctly 60.169 percent of the observations, therefore, the latter is statistically validated (Table 3).

Mc Fadden R-squared for Italian Respondents in Tunisia (Loyalty to Tunisia)

$$R^2_i = 1 - \frac{\text{Log (Lu)}}{\text{Log (LR)}} = 1 - \frac{-192.3912}{-244.4827} = 0.213068$$

Mc Fadden R-squared for British Respondents in Tunisia (Loyalty to Tunisia)

$$R^2_b = 1 - \frac{\text{Log (Lu)}}{\text{Log (LR)}} = 1 - \frac{-125.6225}{-147.3854} = 0.147660$$

According to table 4, in 65.644 percent of the cases, degree of loyalty is correctly predicted and the error rate is low. The likelihood ratio is  $LR = 43.52585 > \chi^2 = 8.488$  (as it is presented on the chi-square table for 4 degrees of freedom). Furthermore, the Mc Fadden R-squared  $R^2_b$  (0.14) tends to 0.4, which leads to the conclusion that there is a very good quality of adjustment so the model is statistically validated (Table 4).

Economic Interpretation. The four equations, using the ordered Logit model (based on the predictions) to estimate European respondents' degree of loyalty to Tunisia are formulated according to Tables 1, 2, 3, and 4 presenting the perceived variables of Tunisia and the motivation factors that have an influence respectively on French, German, Italian and British respondent's degree of loyalty to Tunisia, the coefficient of each explanatory variable in the loyalty equation and the z-statistic.

<i>Variable</i>	<i>Coefficient</i>	<i>z-Statistic</i>	<i>Prob</i>
AGE	0.284491	4.628317	0.0000
ALLINCLUSIVE	-0.383407	-1.691401	0.0908
GENDER	-0.385545	-2.245863	0.0247
HEALTHANDSPAS	0.654601	2.677893	0.0074
BIGHOTELS	1.056499	5.450226	0.0000
CHEAPACCOMMODATION	-1.246614	-3.644058	0.0003
BLUESKY	0.477850	2.680487	0.0074
Total Observations	585		
Obs with Dep=0	53		
Obs with Dep=1	261		
Obs with Dep=2	271		
% correct prediction	60.684		
Log likelihood	-507.6502		
Restr. log likelihood	-546.4534		
LR statistic (7 d f)	77.60		
Probability(LR stat)	0		
McFadden R-squared	0.07		

Table 1 Ordered Logit Model, Predicting the Degree of Loyalty of French Respondents to Tunisia, 2007 – 2008

Source: Author Survey (2007-2008)

<i>Variable</i>	<i>Coefficient</i>	<i>z-Statistic</i>	<i>Prob</i>
ALLINCLUSIVE	0.952393	2.666104	0.0077
DEGREEOFSATISFACTION	2.254318	5.057976	0.0000
FREIENDLYPEOPLE	0.532924	2.089237	0.0367
Total Observations	286		
Obs with Dep=0	26		
Obs with Dep=1	102		
Obs with Dep=2	158		
% correct prediction	58.042		
Log likelihood	-239.2530		
Restr. log likelihood	-261.2659		
LR statistic (7 d f)	44.02586		
Probability(LR stat)	0		
McFadden R-squared	0.08		

Table 2 Ordered Logit Model, Predicting the Degree of Loyalty of German Respondents to Tunisia, 2007 - 2008

Source: Author Survey (2007-2008)

<i>Variable</i>	<i>Coefficient</i>	<i>z-Statistic</i>	<i>Prob</i>
AGE	0.351665	3.140702	0.0017
GENDER	-0.947224	-3.194688	0.0014
HEALTHANDSPA	2.234118	2.556923	0.0106
BIGHOTELS	2.201902	5.301299	0.0000
SAHARAANDNATURE	1.982512	3.465005	0.0005
VISITOTHERZONE	1.111521	3.732846	0.0002
BEACHE	-0.660458	-1.934758	0.0530
HIGHTEMPERATURE	-0.622009	-1.642659	0.1005
Total Observations	585		
Obs with Dep=0	42		
Obs with Dep=1	104		
Obs with Dep=2	90		
% correct prediction	60.169		
Log likelihood	-192.3912		
Restr. log likelihood	-244.4827		
LR statistic (8 d f)	104.1829		
Probability(LR stat)	0		
McFadden R-squared	0.21		

Table 3 Ordered Logit Model, Predicting the Degree of Loyalty of Italian Respondents to Tunisia, 2007 - 2008

Source: Author Survey (2007-2008)

<i>Variable</i>	<i>Coefficient</i>	<i>z-Statistic</i>	<i>Prob</i>
Hightemperature	0.737709	2.164578	0.0304
Cheapaccommodation	1.349213	2.161778	0.0306
Degreeofsatisfaction	2.230603	2.426038	0.0153
Age	0.669316	5.016400	0.0000
Total Observations	163		
Obs with Dep=0	13		
Obs with Dep=1	87		
Obs with Dep=2	63		
% correct prediction	65.644		
Log likelihood	-125.6225		
Restr. log likelihood	-147.3854		
LR statistic (7 d f)	43.52585		
Probability(LR stat)	0		
McFadden R-squared	0.147		

Table 4 Ordered Logit Model, Predicting the Degree of Loyalty of British Respondents to Tunisia, 2007 - 2008

Source: Author survey (2007-2008)

Accordingly with the model, and based on the information in Tables 1, 2, 3, and 4, equations 1, 2, 3, 4, presenting loyalty to Tunisia (Y) as a function of the perceived images of the country (explanatory variables), are formulated as below:

Equation1: Degree of Loyalty for French Respondents (DOL\*)

$$DOL^*_{(f)} = 0.28_{(4.62)} \text{ age} - 0.38_{(1.69)} \text{ all inclusive} - 0.38_{(2.24)} \text{ gender} + 0.65_{(2.67)} \text{ health and spas} + 1.05_{(5.45)} \text{ big hotels} - 1.24_{(3.64)} \text{ cheap accommodation} + 0.47_{(2.68)} \text{ blue sky}$$

Equation 2: Degree of Loyalty for German Respondents (DOL\*)

$$DOL^*_{(g)} = 0.95_{(2.66)} \text{ all inclusive} + 2.25_{(5.05)} \text{ degree of satisfaction} + 0.53_{(2.08)} \text{ Friendly people}$$

Equation3: Degree of Loyalty for Italian Respondents (DOL\*)

$$DOL^*_{(I)} = 0.35_{(3.14)} \text{ age} - 0.94_{(3.19)} \text{ gender} + 2.20_{(5.30)} \text{ big hotels} + 2.23_{(2.55)} \text{ health and spas} + 1.98_{(3.46)} \text{ sahara and nature} + 1.11_{(3.73)} \text{ visit other zones} - 0.66_{(1.93)} \text{ beach} - 0.62_{(1.64)} \text{ high temperature}$$

$$DOL^*_{(b)} = 0.73_{(2.16)} \text{ High temperature} + 1.34_{(2.16)} \text{ cheap accommodation} + 2.23_{(2.42)} \text{ degree of satisfaction} + 0.66_{(5.01)} \text{ age}$$

According to the four equations, most of factors are statistically significant (T student > 1.96), and some coefficient are influencing positively and others negatively the probability of European loyalty to Tunisia.

According to equation1, 'age' (c=0.62), 'big hotels' (c=1.05), 'health and spa' (c=0.65), and 'blue sky' (c=0.47), represent the perceived images of Tunisia and the factors that have a positive impact on the degree of loyalty of French respondents. However, the perception of Tunisia as 'cheap accommodation' (c=1.24), and 'all inclusive formula' (c=0.38) have a negative impact on French degree of loyalty to Tunisia (Table 1). In addition, female respondents are more likely to be loyal to the country (c=0.38).

According to equation 2, the findings show that the perceived image of Tunisia as selling the all inclusive formula (c=0.95) and of 'friendly people' (c=0.53) are positive factors for the loyalty of

<sup>8</sup> C = coefficient

German respondents. In addition, the findings suggest that the more German tourists are satisfied the more likely they would be loyal to Tunisia ( $c=2.25$ ).

Furthermore, according to Table 3 and equation 3, 'big hotels' ( $c=2.20$ ), 'health and spa' ( $c=2.23$ ), 'age' ( $c=0.35$ ), 'sahara and nature' ( $c=1.98$ ) and 'visit other zones' ( $c=1.11$ ) are perceived images of Tunisia and factors that impact positively on the degree of loyalty of Italian respondents to the country. In contrast 'high temperature' ( $c=0.62$ ), 'beach' ( $c=0.66$ ) and 'gender' represent negative factors impacting on Italian degree of loyalty to Tunisia.

The factors that impact positively on British respondents' degree of loyalty to the country seem to be 'high temperature' ( $c=0.73$ ), 'cheap accommodation' ( $c=1.34$ ), 'degree of satisfaction' ( $c=2.23$ ), and 'age' ( $c=0.66$ ). In contrast, no factors are negatively impacting on British loyalty to Tunisia.

The results conclude that the perception of Tunisia as 'Big hotels and health and spa' impact positively on French and Italian tourists being loyal to the country. In addition, German tourists' degree of loyalty depends on 'their degree of satisfaction', 'friendly locals' and 'the all-inclusive formula'. Italian tourists are also loyal to Tunisia to visit other tourism zones and to explore Sahara and nature, and not for seaside tourism. Finally, the perception of Tunisia as a 'cheap seaside tourism destination' is the force behind British tourists' loyalty to the country.

## Conclusion

This study attempts to identify the main forces behind European loyalty to Tunisia as a holiday destination. Therefore, this work investigates some concepts from the literature on tourists' behaviour, involvement profile and loyalty to a tourism destination. The research results clearly show that factors impacting positively or negatively on French, German, Italian and British degree of loyalty are different from one market to another.

The results conclude that 'Luxurious health and spa destination' is more likely to be revisited by French and Italian tourists than a 'cheap seaside destination'. In addition, the more satisfied are German and British tourists the more likely they would be loyal to Tunisia. Furthermore, the perceived image of Tunisia as a 'cheap seaside' destination impacts positively on their degree of loyalty.

Finally, this study also proposes an avenue for continued research. Further research for extending this study would be to estimate European intentions to revisit Tunisia considering two different groups, respondents within their holidays and respondents in their countries after spending holidays in Tunisia.

The above suggestions regarding future research directions emanates from the limitations of this study, as tourists feelings and behaviour within destination may differ from that of after holiday. Therefore, other factors than degree of satisfaction and push/pull factors may intervene in their decision to whether or not to be loyal to the same country.



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## THE ROLE OF FARMER'S WORK INPUT MEASUREMENT IN FUNCTIONING OF THE EQUITABLE AGRICULTURE

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### Abstract

Due mainly to its assigned economic, social and spatial (environmental) functions, agriculture remains one of the most significant branches of economy. These functions create a network of mutual interconnections and complexities. Therefore, it is important to provide a sustainable, equitable development of all integral elements related to the agriculture activities. The neglects existing in any of these agricultural functions may also have impact on the appropriate operation of the remaining functions as time progresses. This problem has been reported for many years. At present, however, it has been analysed closely, particularly within the context of the policy for the equitable development of agriculture. The aim of this paper is to present a problem of individual farmer cost of work and the role of this factor in sustainable and equitable development of the contemporary agriculture.

This research paper discusses the fundamental elements of the sustainable and equitable development of the contemporary agriculture. A particular attention was paid to the economic function of agriculture which significantly influences the other elements of the agricultural activities. The provision of decent incomes to farms creates a chance for an appropriate development and functioning of the social and environmental (ecological) order in agriculture. Consequently, decent incomes cannot be provided if the farms' income does not take into account the farmer's work input.

This paper will present a model of remuneration which incorporates human resources, and allows for a reliable assessment of the work costs of an individual farmer working on his/her own farm. Some indications shall also be made for the methods for facilitating these assessments in practice.

**Keywords:** equitable development, human resources, remuneration model, agriculture accounting

### Introduction

A settled lifestyle undertaken by human beings has become integrally connected with the skills of growing crops and breeding domestic animals. Any improvement in these skills has then been transformed into the increase in the productivity of crops. The possibility to limit the number of people involved in the process of the agricultural production provided a chance for the development

of other economy sectors. Agriculture has been developing, and therefore, as a result, social communities were created and grew in number, new complex settlements were established and the culture was developing as well. The development in the agricultural culture has become a fundamental factor for the economic development of each particular social group. Gathering, systematizing and passing on the knowledge on the agricultural activities have gradually become an important part in the life of each organized society (Stachak, 1998) (Mikołajczyk, 2004). The acquired knowledge on the management of agriculture, the methods of increasing the farming productivity, the tools allowing to limit the use of resources, as well as the rationalization of expenditures have become fundamental issues for the economic development. The need for constant improvement in the acquired knowledge has become a challenge. There has existed a constant aspiration to increase the productivity and economic effectiveness of the agricultural product production process (Adamowicz, 2005).

Similarly, the contemporary agriculture draws also attention from various social communities. This results mainly from the functions imposed on agriculture, the most basic of which is to provide and secure food in the form of agricultural products. The agricultural sector requires also a particular attention as a result of growing discrepancies between farmers' incomes and the incomes of the remaining social groups. As Adamowicz (2005) notices, the consequence of „... the increase in the land productivity and work efficiency, and together with a moderate demand for food products, particularly in the countries which have already reached a satisfactory level of consumption, leads to the decreased importance of this sector of the national economy and to the increase in the problems such as the management of the workforce made redundant and an unsatisfactory level of incomes earned by the people employed in agriculture...”. The requirement to secure the farmers with appropriate conditions for farming has been regarded as an important issue in the economic and social policies of numerous countries. The Treaty of Rome emphasizes the requirements to increase the effectiveness of farms; to support the technological advancements in agriculture; to increase the quality of farmers' lives by means of securing them with decent incomes; to create effective instruments for the agricultural policy, the instruments the aim of which is to stabilize the agricultural product markets (Chmielewska-Gill, Czapla, Dąbrowski, Guba, 2003, p. 7).

The activities which focus on providing the support in agriculture are integrally connected with the idea of the equitable development, which was at first linked mainly to the need of the environmental protection. With time, however, this idea evolved also into other areas of human activities. “... At its basis lies an assumption that the issue of the natural environment shall not be separated from the economic, social, or cultural development. Only an interdisciplinary approach may contribute to the solution of the increasing problems which pose a challenge to the contemporary world, particularly those which refer to ecology...” (Antoszek, 2020). It has become very important to realize the means, by which the farms function, to understand the functions of agriculture and the adequate support it requires, in order to provide it with the opportunity for the sustainable and equitable development.

## **Functions of agriculture within the concept of the sustainable and equitable development of agriculture**

The contemporary agriculture is not a one-dimensional economic sector, as far as its functions are concerned. It has been assigned three fundamental functions: namely, economic, social, and spatial. Within this context, agriculture can be discussed as an multifunctional activity which is manifested mainly in the production of agricultural products used for meeting the dietary requirements not only of the farmers, but also of other social groups. The above is also reflected in the construction of a family, social ties, but also in the shape of the geographical, spatial, and environmental cultures.

The economic function is connected with the expectation that the farms will provide agricultural products hence meeting the dietary demands both of the farmers, and of other members of the society, as it is expected from the perspective of food consumption. It is furthermore expected that the farmers will deliver agricultural products to the markets in adequate quantities, at the same time, however, complying with all qualitative requirements. This trade shall then provide the farms with income which will allow for their effective functioning. At the same time, however, the assumption of the Common Agricultural Policy underlines that agriculture is expected at present to undertake the economic enterprise in a save, friendly manner with reference to the natural environment (Farm...,http)(Common...,http).

The social function is mainly connected with the process of creating jobs which may then secure incomes to a relatively large number of people inhabiting the rural areas, which consequently results in the income which will provide means for supporting the farmers and their families. This function is also connected with the process of shaping the awareness of the farmers with respect to undertaking the responsibility for other social groups. This is consequently associated with the third function assigned to agriculture, namely the spatial function. Agriculture shall actively contribute to the process of the environmental protection and the shaping of the natural landscape. The activities undertaken by the farms shall support the protection of the environment, and the works undertaken in agriculture should not result in any damage of the natural environment, land or water pollution, as well as in any damage of the natural habitats of animals and plants.

The above perception of the functions assigned to agriculture is integrally connected with the concept of the sustainable development of agriculture. The concept is perceived as a direction in the economic development which is firmly associated with the social development and the improvement in the processes the aim of which is to preserve the condition of the environmental (Kokoszka, 2009). The equitable development of agriculture comprises the production goals, the objectives of the environment protection, as well as the social objectives. The activates undertaken as part of this equitable development shall lead to the improvement in life conditions, but also to the preservation of the ability to meet the needs of the future generations (Zawisza, 2004 (quoting Adamowicz, 2005)) (Adamkiewicz, 2000). This equitable development of agriculture is associated, among others, with: the rational exploitation of natural resources; the improvement in the effectiveness of the method by which these resources are exploited; the implementation of new technologies into the agricultural

production; however, this means the technologies which will not disturb the balance of the natural environment; making the agricultural enterprise independent from the market fluctuations; etc. (Woś, 1998). The understanding of the sustainable, equitable development of agriculture shall be associated with the harmonization of four orders:

- the economic order related to the management of the economic resources, the improvement of effectiveness in their exploitation and the increase of capitals;
- the social order which is understood as a process of improving the social relations occurring in the agriculture sector; the improvement in the professional qualifications of farmers; raising the role and importance of farmers' activities in the eyes of other social groups, etc.;
- the ecological order which is related to the management of natural resources, and the protection of the nature; the improvement in the effectiveness of the methods by which these resources are exploited;
- the spatial order which relates to the landscape shaping (Borys, 1998, p.176) (Kokoszka, 2009).

### **Economic function of agriculture as the basis for fulfilling the requirements imposed on the contemporary farming**

The fulfilment of the basic economic function imposes on the farmers the requirement for an effective management of their farms. It is expected that the farmers will produce healthy, tasty food products, but at the same time they shall also incur the least possible costs, as well as secure the existence of appropriate social and environmental relations which occur inside a farm, as well as within its surroundings. Such an understanding of the economic function in agriculture means that the farmers are expected to manage their farms effectively within the framework of the economic sector, and the results of which will be then transferable into other areas of the agricultural activities (The Common...,http).

At present, the farmers shall run their farms by applying rational measures. They should take advantage both of the situational and general knowledge<sup>9</sup>, which shall allow them to manage their farms effectively. It requires from the farmers a significant input of their own work into the process of managing the biological transformation of plants and animals. Running a farm, the farmer is involved in a permanent production process. These processes of the biological transformation of plants and animals require a permanent monitoring; this is due, among others, to their continuous character, as well as to numerous risks connected to, but not only, the significant impact exercised by the natural conditions, e.g. the weather. The results related to the gained crops (agricultural products) depend extensively on the work input of the farmer who by exploiting his/her own knowledge and making

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<sup>9</sup> The situational knowledge shall be understood as the knowledge related to a farm (the features characteristic for his type of economic entity) and the surrounding environment within which it functions. The general knowledge consists of popular knowledge (originating from the tradition and experience) and the scientific knowledge related to the farm management, and to farming (Stachak, 1998, p. 17).

large contributions in the form of his/her own work input into the management of the farm, may eliminate the impact of the unfavourable phenomena, both natural, as well as economic.

Achieving relatively high crops, but at the same time maintaining appropriate nutritious qualities of food products, as well as maintaining a certain economic level of their production, remains a fundamental prerequisite for obtaining decent incomes by the farms. As a result of the effective management, the farmers may improve their economic and social situation of their farms, families, as well as of the local and distant social communities.

Obtaining decent incomes by the farms means achieving such a level of income which allows for the effective management of these farms. Decent incomes shall cover the costs related to the agricultural production (Morehart, Kuhn, Offutt, 2000). They should also provide a chance for development; should provide for the implementation of actions fostering a better exploitation of natural resources, as well as for undertaking works the aim of which is the improvement in the social relations existing within the framework of a farm. Therefore, if decent incomes are to provide for an effective management of the agricultural farms, it seems quite appropriate to accept an assumption that these incomes shall also provide means for covering the work costs of the farmer.

The specific functioning for the majority of farms relates to their management with the use of the farmer's own work input, as well as his/her family members'. The engagement of many family members into the farm work, with the lack of certain instruments facilitating the assessment of this engagement, as well as the lack of the method of its calculation, may lead to the occurrence of numerous social-in-nature problems. If it is possible, however, to calculate incomes for particular people involved in the farm works and these income can be appropriately covered, there exists a possibility for improving or strengthening the family ties which are so important in agriculture (Dobija, Kucharczyk, 2000) (Kucharczyk, 2008). This can also contribute to the improvement in the perception of the farmer's work image. Work appropriately rewarded is also perceived better, both by those who perform it, as well as by other people. The possibility of calculating decent remunerations for the people involved in the farm works, and their payments, creates an opportunity for the improvement in the social life conditions of those who are employed in agriculture. The economic function, which is operating appropriately, and which takes into consideration the aspect of the farmer's work cost, and the effect of which is then reflected in decent incomes gained by the farm, exercises a strong impact on the social function assigned to agriculture. It may effectively contribute to the improvement in the mutual relations which occur between the people employed in agriculture, to the improvement in their life quality, as well as it may have impact on a better perception of the farmer's work "values" by the societies.

Achieving decent incomes as a result of fulfilling the economic function, may also lead to the improvement in the relations occurring between agriculture and ecology. As a result of gaining decent incomes, the farmers will be able to undertake activities allowing them to limit effectively the harmful impact which farming has on the environment. They will be able to implement into their farms new methods and technologies for the agricultural management. Undertaking any such



protective measures is associated with the need for expenditures. These expenditures, however, are possible only if appropriate capitals are available. Achieving decent incomes by the farms presents an opportunity for a conscious and reliable policy with reference to the protection of the environment.

Achieving decent incomes by the farms, however, is not possible if the costs of the farmer's work are not taken into consideration in the calculation of the overall agricultural costs. These work costs remain one of the most significant outlays incurred in agriculture with reference to the production of the final goods (Cieślak, Kucharczyk, 2009). These outlays should be considered in the calculation of process for agricultural products. The prices at which the agricultural products are sold shall guarantee a decent income which consequently, as it was mentioned above, will cover all the costs involved with the farm management, which also includes the costs related to the farmer's own work. In case of agriculture, however, the above poses a fundamental problem requiring a solution, particularly if it is taken into consideration that this enterprise is frequently managed within the framework of a family farm. Individual farmers are faced with the problem of lacking the possibility to apply the instrument which would allow them to measure reliably the costs of their own work input.

### **The issue of a remuneration model compliant with the value of human resources**

The research carried out on the nature of human resources has always been an integral part of the general accounting theory. This leads consequently to formulating two fundamental aspects applicable to the process of measuring human resources:

- the organizational unit aspect,
- the individual aspect.

In the case of the farmers, it seems appropriate to perceive the issue of the human resources measurement within the context of the individual aspect. Such an approach seems to be justified by the method used for the assessment of the human resources value. In the organization unit aspect, it is assumed that a business entity remains the only entity for the accounting purpose. In the individual approach, a human being may also be regarded as an entity (Cieślak, 2006, s.133). M. Dobija (2002) in his paper notes that "...while assuming that a human being, who can be employed, also has his/her own indispensable value which remains independent from the value of an organization, and hence, we may also try to estimate this value, and confront it with the value created by the job market. We can find the methods for measuring human resources which will expose the value of an employee regardless of any organization; and as a result of which, we can obtain information which will be more general in its nature, which will be more important not only from the perspective of a firm, but also an objective economic category which shall become more useful from the perspective of management...".

The model of human resources is a model developed based upon the capital general model. This model takes into the consideration the fact that the owner of the capital is a particular person, and that no loss occurs in the phase of the capital creation (from the moment of birth to the moment

gaining an employment (Dobija (M.), 2006). Therefore, the human resources model can be presented in the form of the following formula (1):

$$(1) \quad H_t = H_0 e^{pt}$$

where:  $H_0$  – the flow of outlays from which the capital is created,

$H_t$  – the capital assigned to a person at the age of  $t$

The considerations on the human resources model within the individual aspect are based on the assumptions referring to the theory of existence. Considering the nature of the human resources, it shall be remembered that it is analyzed as a category referring to an individual person who shall be perceived as a three-part entity constituting of a triad, i.e. body – mind – spirit. According to the above approach, a model for the human resources was developed which was then well researched, verified and described in numerous research works by M. Dobija (1998, 1998a, 2000, 2001, 2002, 2006, 2006a). This model assumes that the value of the human resources accumulated in a particular person ( $H(T)$ ) shall be defined as a total of capitalized costs of living ( $K$ ) and education ( $E$ ), increased by the experience factor ( $Q(T)$ ). A formal presentation of the human resources evaluation can be presented in the form of the following formula (2):

$$(2) \quad H(T) = (K + E) \cdot [1 + Q(T)]$$

In compliance with the capital general theory, human resources are not subjected to a loss, but only decrease as a result of the work performed by a human being. While performing this work, a transfer takes place of the capital accumulated in a worker into the goods produced by him. At the same time, the capital is characterized by the determination to maintain its initial value. Human resources are determined to multiply themselves in an appropriate rate, and in a defined time. Therefore, their value, in compliance with the concept of capital preservation, will be preserved if the generated flow of incomes will result in an adequate rate of capital return assigned to a person performing work. By performing work, a person expends energy by transferring it into the goods produced. The expenditure of this energy shall be covered for (Dobija (M.), 2006). This covering for the expended energy remains a factor necessary in order to perform work in the future and not to experience tiredness, discouragement or apathy. The lack of or insufficient coverage for the expended worker's capital by the employer may lead to dissatisfaction, and in extreme cases, to some social unrests (Cieślak, Kucharczyk, 2004). The same may happen in the case of the farmers who perform work at a farm. They may expect that the farm will cover for the expended energy absorbed by the farm from the farmers. A farm shall guarantee the farmers decent incomes which shall allow them to maintain

the above resources. Therefore, it is important to measure the costs of the farmers' work, and to calculate the remuneration which is consequently due to them.

The payments and costs of work shall be, in compliance with the capital maintenance concept, treated as a value resulting from the application of the decent rate of return on the capital accumulated in a worker. By applying the concept of the internal rate return (*IRR*), it is possible to obtain, within the model of the human resources, a formula which will be indicating the fact that the capital accumulated in a working person ( $H(T)$ ) should increase its value within one evaluation period by the  $(1+r)$  factor, in which ( $r$ ) indicates the expected return rate.

$$(3) \quad H(T)(1+r) = W + H(T+1)$$

The formula (3) shows that a working person receives, during one calculating period, remuneration ( $W$ ). This person increases also the value of his/her resources by the rate of the increased experience ( $H(T+1)$ ). By transforming the formula (3), it is possible then to calculate a periodic remuneration:

$$(4) \quad W = H(T) \cdot r - H \cdot \Delta Q(T)$$

The remuneration model defined in the formula (4) indicates that the remuneration shall be calculated as the percentage ( $r$ ) from the capital. This model shows also that the experience factor contributes also to the capital accumulation factor. This element, however, does not have a significant impact on the change in the remuneration value in the initial period of work. Its importance is gradually reduced and disappears with time (Sunder, 1997 p. 35 (quoted after) Dobija( M.), 2006). Therefore, the percentage ( $r$ ) from the capital remains a basic factor which decides about the amount of remuneration, and the general model of decent incomes can be presented as the following formula:

$$(5) \quad W = H(T) \cdot r$$

The above model indicates that the remuneration is a value originating from the size of capital accumulated in the working person. The return rate ( $r$ ) remains the same for all the persons.<sup>10</sup> This means that the highest value of the capital accumulated in a particular person, the highest remuneration payable to this person.

The remuneration calculated in compliance with the above model presented in the formula (5) represents the remuneration which balances the cost of risk. By doing so, the depreciation of the

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<sup>10</sup> The rate ( $r$ ) equals the risk bonus.

worker's capital can be avoided. Consequently, this remuneration can be regarded as decent, as a basic remuneration. As M. Dobija (2006a) notices, „... a decent remuneration must balance the cost of energy spent on work as well as the loss of energy through heat, and other life factors. But in compliance with the theory of minimized activity (the P. Maupertius law, 1698-1759), this balancing takes place on the free market in the minimal form, by providing the person offering work or products with the risk bonus, i.e. an amount necessary to balance the natural dispersion of the worker's capital. This represents an ideal of a decent remuneration ...”.

### Estimating the farmer's work costs

The above models of decent remunerations facilitate the estimation of the work costs for individual farmers. The initial point in these estimations is to assess the value of human resources accumulated in a farmer; this value is calculated by applying the formula (2). The next step is to estimate a decent remuneration. An exemplary estimation of the farmer's work costs can be found below; this estimation was performed for one farm where the system for the periodic income measurement was tested.<sup>11</sup> This farm of 30 hectares of arable land was managed by a pair of owners with secondary education, and work experience, in years: 22 and 20. Detailed information on the amount of the estimated costs of the farmer's work input is presented below.<sup>12</sup>

To calculate the normative remunerations payable to farmer, the following type of data was applied:

- monthly costs of living: 517,95 PLN<sup>13</sup>
- monthly costs of education: 250 PLN
- education parameter: 6%
- capitalization rate: 8%

Additionally, an economic factor referring to the farm size was also taken into consideration while calculating the remuneration for the farmer's work. This factor shall be taken into account since it is necessary to determine to what extend the work input is used for the purpose of managing a farm. To determine this factor, a normative farm size of 24 hectares per person was accepted (Jasiński, Przybyłkowski, 1995, p. 29 et al).

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<sup>11</sup> The estimation of the farmers work input was performed on a family farm, as part of the research conducted with the aim to define an accounting system model applicable to family farms. The results of this research were described in the paper by M. Kucharczyk (2008). This research was funded from the 2006 – 2008 subsidy for science and research projects: Research Project N11503931/1597.

<sup>12</sup> This research paper takes into consideration any quantitative changes in the data, with reference to the initial values, in order to adjust the presented data (i.e. to adjust it to the current values).

<sup>13</sup> This value was calculated based upon an average annual 2008 subsistence level determined by the Institute for Labour and Social Studies.

Normative estimation of farmers' remuneration at Farm A		
Item	Farmer	Farmer's wife
Annual normative remuneration	28 438,67	28 209,33
Monthly normative remuneration	2 369,89	2 350,78
Monthly normative remuneration after taking into account the economic size of the farm	1 493,03	1 480,99

Human resources value of the farm's owner		
Item	Farmer	Farmer's wife
Capitalized costs of living	269 080,35	269 080,35
Capitalized costs of edukacji	17 599,80	17 599,80
Experience gain factor dependable on the learning parameter	0,24	0,23
Human resources value	355 483,39	352 616,58

Collated data 1: Normative estimates of farmers' remunerations at Farm A

Sources: Elaborated on the Kucharczyk M. (2008), p. 260

According to the above calculation, the costs of the farmer's work, reported in the farm under examination, amount, on a monthly basis, to: 1 493,03 and 1480,99, and should be considered in this amount for the purpose of any calculations referring to the activities undertaken by the farmers and to their farms.

The possibility of estimating the costs of the farmer's work input facilitates also, but not only, a reliable estimation of a periodic economic profit achieved by a farm. Without taking into consideration the costs of the farmer's work in the system for measuring a farm profit, the final results obtained will be distorted.<sup>14</sup> In the above system, this is mainly caused by the lack of the balance between assets and liabilities, hence only a reliable value can become a basis for calculating the assets located in a farm. This value, originating in the active market, takes into account all outlays involved in the production of goods, which are "socially acceptable" (Dobija (M.), 2006a). It also includes the costs of the farmer's work. Therefore, by striving to maintain the duality principle, it is necessary to incorporate the costs of the farmer's work into the farm's liabilities.

Additionally, without having the possibility for a reliable estimation of the farmer's work input, it is not possible to budget correctly decent prices for agricultural products.<sup>15</sup> His/her capital, in the form of the above energy, is transferred into the farm and is included in the assets of such a farm. The

<sup>14</sup> The issue of measuring the periodic economic profit does not constitute a research objective of this paper. It shall be, however, emphasised that the formula, proposed in the paper by M. Kucharczyk (2008, 2009), for the measurement of the periodic economic profit of the family farms, indicates the need for taking into consideration the costs of the farmer's work in order to perform its estimation reliably.

<sup>15</sup> The budgeting model for estimating decent process of agricultural products was presented in the research paper by D. Dobija, M. Dobija (1999), and then developed further in the works by I. Cieślak, M. Kucharczyk (2003, 2004a, 2005, 2009).

budget of costs incurred while producing an agricultural product shall therefore take into account the costs of the farmer's work. If the calculation of the product prices does not include the costs of the farmer's work, the obtained prices of the agricultural products does not lead to obtaining decent incomes by a farm. The price established based upon the budget which does not take into account the costs of the farmer's work becomes a price which does not consider all the risks involved in the agricultural production. Therefore, this price cannot be treated as a price originating from an active market. The lack of a decent remuneration (price) obtained for the agricultural products results in the farm not having the possibility of performing the functions which were assigned to it. Such a farm will not be able to participate in the economic trade, compete on the market, develop and invest for the future. Such a farm will not be able to satisfy the living needs of the farmers. The above bears further consequences on other areas of agriculture.

The existence of the possibility to estimate the costs of the farmers' work creates an opportunity for the creation of appropriate social relations or the improvement of the existing ones. By determining the remuneration obligations to be fulfilled by the farms to the benefit of the persons working on it, the problems with mutual dependencies are resolved, both between the farm and the farmer, and among the family members who jointly manage this farm.

The estimation of the farmer's work costs, and his/her remuneration, creates a foundation for a reliable calculation of his/her incomes. The assessment of his/her welfare, as well as of his/her social status, becomes a realistic possibility. His/her credibility rises. The creation of effective tools for supporting the living conditions of those employed in agriculture becomes feasible. The tools applicable within the framework of the policy supporting the development of the rural community become more effective, more "focused". This is particularly important within the context of a real opportunity for the implementation and development of the equitable development policy in agriculture.

## Summary

The idea of the equitable development in agriculture assumes that "... the principle of the integrated, equitable and permanent development cannot be accomplished through the multifunctionality of agriculture, where various sustainability dimensions are manifests: i.e. environmental, economic and social ones, as well as various areas of agricultural and non-agricultural activities in the rural areas ..." (Adamowicz, 2006). Any changes or transformation occurring in them shall be linked with one another and constitute a cohesive entity. It seems, however, that the basic factor which may support the idea of the equitable development of agriculture is the assurance for the appropriate functioning of agriculture in the economic framework. If the farms are not guaranteed the possibility of effective functioning, it seems impossible to achieve the balance and stability within the social and environmental areas. The most fundamental aspiration of human beings is to secure their economic well-fare, and only then will they undertake any other attempts to realize other goals, for example, those connected with the improvement of social or environmental relations.

The provision of an appropriate economic development of the farms will not be possible without creating accurate tools for supporting the actions undertaken by the farmers as part of the farm management. Hence some tools are created which make it easier for the farmers to assess the effectiveness of the actions performed, to assess the feasibility of development and the potentiality of risks related to the agricultural enterprise. One of the examples of such initiatives is the attempt to indicate the importance of taking into account the costs of the farmer's work while calculating the prices of the agricultural products, or estimating the periodic economical profit.

This research paper attempted to emphasise the importance and role of the above initiatives. In this paper, the agriculture functions were presented, and their role in the theory of the equitable development of agriculture exposed. An exemplary estimation of the farmer's work costs was also provided. Furthermore, some practical indications for the use of such information were also enclosed, with reference to the economic estimates on the effectiveness of activities undertaken in the farms. This paper may be regarded as a valuable contribution to any further research projects the aim of which will be a thorough analysis of the feasibility and legitimacy of applying this model of remunerations calculated on the basis of human recourses, into the process of estimating the costs of the farmer's work and taking them into account for the purpose of various economic balances. This research paper may, therefore, constitute a contribution to the current discussion on the chances for a common application of the sustainable and equitable development concept into agriculture.

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## EXPLORING THE HISTORY OF ACCOUNTING IN CYPRUS

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### Abstract

Relative to other developed countries, very little has been specifically written about any aspects of accounting history in Cyprus. This is a surprising omission given the rich and colourful history of Cyprus extending back some 10,000 years which includes nearly a century of administrative dominance by the United Kingdom from 1878 to 1960, after which time Cyprus achieved its independence.

This paper makes a tentative contribution to this vacuum. It does so by looking at different phases of Cyprus' history and, within those phases, it identifies some of the significant developments in accounting in the island and suggests some possible influences.

Like most studies on the history of accounting in various countries, this paper suggests that the practice of accounting, and the accountancy profession, evolves over time and in response to various political, economic, legal and social forces. One recommendation of this exploratory paper is that much additional work on the history of accounting in Cyprus needs to be undertaken.

**Keywords:** Cyprus, accounting history, accountancy profession.

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### Introduction

Business educators throughout the world are expected by their students and employers of those students to deliver up to date, relevant curricula together with appropriate business skills. A recent example of this is the (renewed) call for the teaching of business ethics and moral reasoning, prompted by the number of significant corporate financial scandals, often based on unrealistic accounting practices and fuelled by obscene executive compensation schemes (Ghaffari et al, 2008). While this orientation is understandable it has, at least, one limitation in that the taught curriculum has the potential to become overcrowded as the knowledge base proliferates. Thus, previous research indicates that a commonly cited reason for not teaching ethics in the business curriculum is the lack of time, as opposed to the belief that ethics cannot be taught (Blanthore et al., 2007). This phenomenon of "omission" may be particularly relevant to accounting programme, where there is a need to include an expanding range of technical material in the area of, for example, international financial reporting standards, auditing and taxation in order to retain exemptions from professional

accountancy bodies. In turn, this technical orientation may squeeze out more descriptive and conceptual material and the development of analytical and basic research skills.

One topic (which is the focus of this paper) for which calls have been made to be included in the business curriculum is that of accounting (or business) history. For example, Koeppen argues that:

“adding an historical dimension adds a sense of culture to the accounting curriculum. Developing the student’s awareness of this culture will help them to understand the role of accounting in society (and) should lead to better educated students and better prepared professionals.”

(Koeppen, 1990, p. 95).

Relative to most developed countries, the interest in and perceived importance of accounting history is not reflected in Cyprus. Indeed, based on an extensive internet search, the author was able to find only two papers dealing specifically with accounting history in Cyprus. The first paper described the export of British accounting legislation to Commonwealth countries and this included a short section on Cyprus who, in 1951 and as a member of the Commonwealth, adopted the British Companies Act 1948 (Walton, 1986). At time of writing, this legislation, with some amendments, still remains the principal legislative framework for companies registered in Cyprus. A second (conference) paper (Cavlan, Ekinici and Yuksel, 2008) examined the accounting records of “waqf” administration in Cyprus just before administration of the island was transferred to Britain 1.

The purpose of this paper is to provide a small contribution to our knowledge of Cypriot accounting history. When one reviews any aspect of accounting history, it is apparent that the practice of accounting in any country does not exist in a vacuum. Rather, the development of accounting is influenced by a variety of economic, political, legal and social factors. This perspective allows us to understand that accounting information is a basic social need and that accounting practices evolve and adapt to these needs. Thus, we must be aware of the context in which the practice of accounting takes place. The opening page of McHenry’s book on Cyprus (1987, p. 1) provides an interesting context since he remarks “One of the most striking continuities in the history of Cyprus is the extent to which external forces have influenced the island’s course of development”. Following McHenry, it is convenient to divide our accounting history review into four time periods as follows:

1. From ancient times to Ottoman domination (to 1571).
2. Ottoman domination and the Commercial Code (1571 – 1878).
3. British Administration including Colonial Status (1878 – 1959).
4. Cyprus Independence and the internationalisation of Accounting (1960 onwards).

### **From Ancient Times to Ottoman Dimonation (to 1571)**

By way of background, it is useful to note that the practice of accounting can be divided into three elements namely, the recording of transactions of a business entity, the reporting of this information to various interested parties, and the interpretation of those results (AICPA, 1953). Thus, the starting point of the accounting process is the recording of transactions and events of the business entity within the accounting system. Two basic requisites are needed for the recording process namely transactions or trade together with their monetary value. Excavations have proved civilisation in Cyprus, mainly settlements along the north and south coasts of the island, from the period about 7,000 BC, providing us with nearly 10,000 years of history. The Early and Middle Bronze Ages (2300 – 1600 BC) saw the first real towns, and some of these towns prospered through trade. In recent times, Italian archaeologists carrying out excavations in the Pyrgos-Mavroraki area - East of Limassol – have made a series of discoveries including that of an ancient industrial park where olive oil, copper, perfume and a range of herbal medicines were made around 4,000 years ago (Sunjet, 2009).

In museums, there is ample evidence of ancient coins used in Cyprus. For example, the impressive publication *Coins of Cyprus* (Bank of Cyprus, 2009) presents various coins, across separate chronological periods starting with the city-kingdoms over five centuries BC. These ancient coins confirm the possibility of primitive accounting records being maintained. However, as Edwards (1989) points out in his general historical review, the main writing surface was papyrus so very few of these written records survive. However, it is reasonable to suggest that the need for accounting records around that time would not have extended beyond recording cash receipts and paid together with debts payable and accounts receivable. What we now refer to as comprehensive double-entry book keeping was not required or used. Indeed, the first book on accounting (i.e. book-keeping) was authored by Fra Luca Pacioli and published in 1494 and this described the practice of accounting as it was then used by merchants in Italy.

### **The Era of Ottoman Dominance and the Commercial Code (1571 – 1878)**

In 1570, Ottoman troops attacked Cyprus capturing Nicosia and finally Famagusta (1571). The introduction of the Ottoman Commercial Code in 1850 was the first significant development on accounting matters in Cyprus (Amirayan, 1906). It is worthwhile to note that this Code was based on the earlier French (Napoleonic) commercial code which became established in a number of European countries during the nineteenth century (McLeay, 1999). Amirayan – who was a Barrister at Law and Assistant King's Advocate in Cyprus - notes that many commentators have remarked that the Ottoman Commercial Code is directly copied from the French Commercial Code. However, while this is true as a general proposition, Amirayan argues that it should be accepted with reservation as there are many points of divergence but these could be attributed either to accident or design since the Turkish text of the Code indicates that modifications were made "as was thought necessary to bring those provisions in harmony with the circumstances of the Ottoman Empire", (Amirayan, 1906, p. vi). It should be noted that the French Commercial Code had also been used in Greece since 1835 (Venieris, 1999).

The Ottoman Commercial Code recognised three kinds of commercial partnerships i.e. an ordinary partnership (Collectif), a limited partnership (Commandite) and a partnership called Anonyme, which corresponds to, but predates, the English limited liability company. Some of the accounting/business provisions of this Ottoman Commercial Code are worthwhile to recall since they required basic accounting records to be maintained:

- Articles 3 & 4 required that every trader shall record on a daily basis details of his transactions, bills of exchange payable and receivable and also keep an inventory book, in which he shall exhibit every year, his moveable property, debts and assets.
- Article 5 required that both books shall not contain any blanks, obliterations or writing between the lines. At the start of each year, an officer of the Commercial Court would number the pages and mark the pages at the end of the year but the office was not allowed “whatsoever to read a single word”.
- Article 8 required that books kept in conformity with the legislation may be admitted as evidence in disputes arising between traders.

In addition, the Ottoman Commercial Code contained many provisions in relation to bankruptcy of a trader. One significant accounting provision was that within three days of the cessation of his payments, a declaration of bankruptcy should be made and accompanied by a deposit of the balance sheet which shall be certified as true and signed and dated by the debtor.

The above requirements suggest that the focus on accounting records at that time was to facilitate the resolution of conflicts over debts between traders and also bankruptcy proceedings. Indeed, it is possible that many traders in Cyprus at that time considered the maintenance of a bookkeeping system as a pointless luxury. All that was required for many of these small traders was a system to track cash and credit transactions and many would not have had the ability to record such transactions in a systematic manner, required by formal bookkeeping techniques. Indeed, It should be noted that the first book on double-entry bookkeeping, specifically written for users in the Ottoman Empire was published a short time earlier in 1830 (Ozbirecikli, Aslan and Odabus, 2008) but this may or may not have been available in Cyprus. Furthermore, taxation was not assessed with reference to accounting information. Also, the above accounting provisions should be viewed in the context of the economic fabric of the society in which they existed. Turkish rule of Cyprus at that time is a controversial matter and has been described in different ways but one official US publication is rather critical when it described the Turkish rule of Cyprus of being “at best indifferent and at worst oppressive...and at one point in the eighteenth century the island was considered hardly more than a piece of property suitable for inclusion in the dowry of the Sultan’s daughter” (Adams, 1964, p. 28/292). Indeed, when Cyprus came under British rule, the only bank in Cyprus was the Imperial Ottoman Bank which was founded in 1863 (Phylaktis, 1988). General education did not fare much better. In 1905, it was noted that the “Elementary Schools of Cyprus had made great strides since the days when the chaotic state of affairs (prevailed around the late 1870s) but scarcely half of the children in the island are under instruction” (Board of Education {12}, 1905, p. 420) .

### **British Administration (1878 – 1960)**

The strategic importance of the middle East to Great Britain was significantly increased with the opening of the Suez Canal in 1869, which brought London nearer to its Asian colonies by some considerable distance. In November (1875), the British Government were willing purchasers of shares in the Canal. In 1878 the Convention of Defensive Alliance between Great Britain and Turkey (the Cyprus Convention), provided that Cyprus, while remaining under Turkish sovereignty, should be occupied and administered by the British government with this occupation commencing on 12th July, 1878. Writing some years later, Orr (1913, p. 13) noted that there was no question of the British Government “upsetting the prevailing system or machinery” since the Cyprus Convention presented Britain’s administration as a temporary arrangement. This is because one of the conditions specified that if Russia restored Kars and other conquests in Armenia to Turkey, the island of Cyprus would be evacuated by England, and the Convention of 4th June 1878 would end. In theory, this provision provided for the eventual return of the island of Cyprus to Turkish control – although this never happened.

It can be argued that this ‘temporary arrangement’ tended to discourage the inflow of private British capital into the island’s economy, as there was no guarantee that such investment would be recovered in the event that the British actually evacuated Cyprus (Adams, 1964). Also, it should be noted that many of the British officials who administered the island at that time were mainly drawn from the army, as the occupation was at its inception, of a military nature. Furthermore, the new (British) administrators would not have spoken the native language nor would they be familiar with Cypriot laws and customs. In such circumstances, compromise solutions rather than decisive actions are understandable. Typical of this was the Cyprus Courts of Justice Order, 1882, which provided that in every Ottoman action, i.e. one in which the defendant or all the defendants are Ottoman subjects, Ottoman Law which was in force in Cyprus on 13th July 1878 shall apply. In contrast, in any foreign action i.e. in which one or all of the defendants is not an Ottoman subject, English Law shall apply.

In addition to indecisiveness, two other characteristics of the period of British Administration should be briefly mentioned, namely, bureaucracy and the English language. As Orr (1913, p. 177) notes, in order to evolve order out of chaos which prevailed in 1878 the services of a trained bureaucracy was necessary but he states that “not a sparrow can fall to the ground without a report of the circumstances – probably in triplicate eventually appearing on the table of the Chief Secretary to the Government and being submitted to the High Commissioner for his information”. Part of this bureaucracy represented an accounting system – admittedly primitive in that records reflected, chiefly, cash receipts and cash payments. Various, and very detailed, financial statements of government activities were regularly published in the Cyprus Gazette. Clearly, this accounting system required skills of individuals trained in the technique of book-keeping. Soon after taking administrative control of the island, the British appointed their first Auditor General in February 1879

and he was at the same time the Accountant General and a member of its Executive and Legislative Councils of the island (Rokopou, 2002). Five years later, the British decided to separate the duties of the auditor and accountant. The impact of this legislation still exists since under Article 115 of the 1960 Cyprus Constitution, an independent Audit Office was established and the Constitution also provides that the Auditor General and the deputy Auditor General be appointed by the president of the republic. The Constitution reinforces the independence of the Auditor General the Deputy Auditor General in, for example, the following ways:

- They cannot be removed from office until retirement age, which is now 60.
- They cannot be removed from office except on the grounds of mental or physical incapacity or misconduct.

Soon after the advent of British administration of the island, there was a growing recognition among some Cypriots of the importance of a knowledge of the English language, both because it is one of the official languages of the county and was also the language of commerce. In brief, a working knowledge of the English language became an important factor in determining an individual's social mobility and this phenomenon has been suggested for other countries, occupied by the British (Clarke, 2008). According to an estimate made in 1901, only about 650 of the native population could be said to speak English; therefore, it not surprising that a Government examination in English was required for all those entering Government service and, for those already serving, knowledge of the English language would in future be considered essential for promotion - unfortunately, there were not sufficient teachers of English to cater for the demand (Board of Education [12] 1905). Therefore, it is not surprising that Orr (1913) reports that in Nicosia, an excellent institution known as the English School was established in 1900 with over 100 pupils, both borders and day boys, with the pupils being prepared for the Cyprus Government exams.

Plans for commercial education fared worse since the Board of Education Report (1905) noted that commercial education had not progressed advanced beyond the stage of suggestion, in contrast to the neighbouring island of Malta which, taught the subject of book-keeping as part of the secondary (Lyceum) school curriculum (Board of Education [5], 1905). However, two schools should be specifically mentioned in regard to the teaching of accounting/bookkeeping. One school is the American Academy, which was founded by two missionaries of the reformed Presbyterian Church of North America, Rev. Walter McCarroll and Mrs McCarroll, who had originally arrived on the island in 1903 in charge of an elementary mission school. The Carroll's secured permission to open a secondary school for boys (it is now a co-educational establishment) and in 1908 Rev McCarroll founded the American Academy in Larnaka (Damala, 2008). According to the minutes of the Reformed Presbyterian Church (1911, p. 56) this school "was established for the training of native workers for the evangelization of their own people" and in that year it reported 60 pupils and of these 16 were in the boarding department. We are informed that one of its graduates (Nicolas Michaelides, who graduated in 1923) got a job as a Clerk in Western Africa with a yearly salary of 240 pounds (and accommodation) and it is claimed that he was given this appointment because of his efficient

knowledge of “Commercial branches” which he developed in the Academy and represented but one of the Academy graduates that was “doing well in his business life” (Damala, 2008, p. 29). The Prospectus of the American Academy indicates that it was well equipped for commercial instruction. For example, in order for students to enter the second year of the programme, students had to pass written examinations in Pitman’s Primer of Book-keeping, pages 1 to 100, and admission to the third year required passing exams on the entire Pitman book! There were two, three, three and three class periods devoted to the teaching of book-keeping in first, second, third and fourth year respectively; 2 periods in both third and fourth year for Commercial Correspondence and 2 period of typewriting in fourth year, in addition to a large range of non-commercial subjects (Damala, 2008).

We know that in 1927/28 two of the Academy’s faculty taught accounting and their details are provided as follows (Damala, 2008):

- Faik, Turkish School, Diploma of La Salle Extension University. Turkish and Book-keeping.
- P. Georghiou, American Academy, Diploma of La Salle Extension University. Arithmetic and Book-keeping.

Although Faik is not listed above as a graduate of the school, a person of that name was one of the first three graduates of the school in 1911 and Faik was a faculty member during the 1920s/1930s. P. Georghiou, who is listed as a graduate of the school is also listed as a faculty member between 1926/29. To date, these are the first formal teachers of book-keeping/accounting on the island of Cyprus about whom we have any knowledge. This raises the question of where and how they learned their book-keeping skills? Unfortunately, the school’s records that may answer this question were destroyed in a school fire some years ago. Both of these book-keeping teachers are described as being graduates of the La Salle Extension University. This was a distance-education institution, based in Chicago, that provided a wide range of correspondence course in business for its students and coincided with the acknowledgement that “the increasing complexity of social and industrial problems makes necessary the study of the basic principles of business and the manner of their application to present-day needs” (La Salle, 1909-10). It should be noted that, around that time important business schools had been established in the United States (and the continent of Europe). The regular annual tuition fee for students taking the complete extension course in Business Administration was fifty dollars – for three years one hundred and fifty dollars. A minimum standing of 75% in each individual subject was required and, on satisfactory completion of the course, a Diploma was awarded. If we assume that both Faik and Georghiou took the La Salle “Elements in Accounting practice” course then the syllabus included the following and a comprehensive study manual was available with end of chapter questions (La Salle, 1922):

- The Balance Sheet
- The Profit and Loss Statement
- The General Ledger
- The Journal



- The Cash journal
- The Purchase and Sales Journal
- Columnization

Another secondary school, which would also excel at teaching commercial subjects was The Pancyprium Lyceum (in Larnaca) was founded in 1911 and is the oldest Commercial school in Cyprus (Pancyprian Lyceum web site). However, it was not until 1978 that it was converted into a Lyceum, offering specialised education to 15 – 18 year-old students.

At the turn of the century, the overall population figures for Cyprus for the 1881, 1891 and 1901 Census were 186,173, 209,286 and 237,023 respectively. The vast majority of these were employed in agriculture and official exports are predominantly agricultural products, including wine (Hutchinson and Cobham, 1907). It was in this environment in which the first modern local banking institutions were created. The “Nicosia Savings Bank” was established in 1899 (and now trades as the Bank of Cyprus). In 1912 it changed its status into a Societe Anonyme, since it lent to persons other than shareholders (Phylaktis, 1988). Initially, the British Government in Cyprus was reluctant to enact appropriate legislation but it gave permission to the Executive Board of the bank to change the Bank’s status into a Societe Anonyme, on the basis of the Ottoman Code of Commercial Law which existed in Cyprus at that time. In this way, the Bank of Cyprus enjoyed the rare privilege of limited liability for its shareholders before the 1922 Companies (Limited Liability) Law.

When World War I began on 1st August 1914, an overly hasty appraisal of Germany’s military capability led Turkey to enter the war on the side of the Central Powers. Britain immediately annulled the Cyprus Convention and annexed the island on 5th November 1914. Subsequently, Turkey relinquished all rights to Cyprus (Treaty of Lausanne, 1923) and subsequently Cyprus became a Crown Colony on 10th March, 1925 under the control over a newly appointed Governor who replaced the High Commissioner.

The Ottoman Commercial Code was eventually repealed and replaced in stages by, for example, the Companies (Limited Liability) Law, 1922, the Partnership Act, 1928 and the Bankruptcy Law, 1930. All these pieces of legislation were based on prior English legislation – thus in the field of company law a shelf product was readily available - confirming the notion that commercial law in general and company law in particular are prime subjects for legal transplantation (Harris and Crystal, 2009). For example, the Companies (Limited Liability) Law was enacted in 1922 and this was based on the British 1907 Act (Walton, 1986). Two years later, the initially named Popular Savings Bank of Limassol, which had been established in July 1901, took advantage of this legislation and became the first limited liability entity registered in Cyprus under this Act as “The Popular Bank of Cyprus Limassol Limited” and was provided with the registration number “1” (Laiki Bank, website). The original name of the bank was subsequently changed on a few occasions and at an EGM on 31 October 2006 approved the change of name to “Marfin Popular Bank Public Company Ltd”. (Laiki Bank, website). The 1922 Act contained basic accounting requirements which are primitive by

modern standards. It was provided (in Table A) that the directors of every limited liability company shall “cause true accounts to be kept” and “lay before the company in general meeting a profit and loss account...and a balance sheet”. Furthermore, it was provided that auditors make a “report to shareholders on the accounts examined by them” and shall state whether in their opinion the balance sheet presents a “true and correct view of the company’s affairs”. (Companies [Limited Liability] Law, 1922).

However, company registrations were slow – averaging about six per annum – as the 61st company (Cyprus Commercial Company Limited – was registered in 1934 (Manglis, website). Thus, with the exception of banks and possibly a few large companies, accounting was probably limited to recording transactions in order to keep track of accounts receivable, accounts payable and cash received and paid. As far as can be ascertained the first text of book-keeping/accounting published in Cyprus was one written in Greek by Enotiades (1923) with the title (translated into English) Self Taught Commercial Accounting. According to the book’s Prologue, it is based on the works of Decio de Rezo, Giorgio Marchesini and two Greek writers Saradou and Iakovidou. Of course, it is probable that similar texts, published in English and England were available for sale in Cyprus prior to that time or were imported into Cyprus by individuals taking up commercial or similar positions on the island. Furthermore, the absence of income tax – it was not introduced until 1941 - meant that accounting profits were not assessed based on formal profit statements. In such circumstances, accounting records would not be viewed at that time as an important issue.

The 1941 introduction of income tax (Income Tax, 1941) was not Cyprus’ first encounter with such a system and had existed during the period of Ottoman domination (Clarke, 2010). However, it was abolished by the British in 1906 and, according to one local commentator at that time, its disappearance was “hailed with delight by the inhabitants” (Orr, 1913). However, in 1922, an Inter-Department Committee in London drafted a Model Colonial Territories Income Tax Ordinance which could be imported into its colonies and dependencies. The Ordinance represented a considerably simpler system than the legislation then in effect in the United Kingdom and it was this simpler system that was imported into Cyprus in 1941 (and also introduced into Egypt in 1938, Hong Kong in 1940 and Palestine in 1941). The second introduction of income tax in Cyprus was a response to the growing economic crisis affecting the country as a direct result of World War II with its increased government expenditure, especially on air raid protection, the relief of unemployment and price support for some agricultural products. The Cyprus Post (7 January, 1941) considered the introduction of income tax to be the most equitable way to eliminate the government’s financial crisis at that time and correctly predicted that, even though its introduction was a temporary measure, it was “unlikely to be revoked even in time of peace”. The essential thrust of the legislation was that income tax was payable in respect of gains from any trade, business, profession or vocations, gains or profits from any employment, dividends, interest, pensions, and rents. In terms of revenue generation, income tax was a success since, within a decade, it was generating 20 per cent of total government revenue. In addition, this simple piece of legislation, it can be argued, stimulated, in an unintended way, the subsequent development of accounting and the accountancy profession in

Cyprus. This is because, the legislation, indirectly, encouraged businesses to maintain good accounting systems.

Firstly, the Act (Income Tax, 1941) provided for the deduction of “all outgoings and expenses wholly and exclusively incurred” in determining chargeable income - a standard clause used in tax legislation in general. However, it was also provided that these deductions would not be allowed “unless proper accounts, to the satisfaction of the Commissioner...are produced”. Also, a deduction was allowed for previous losses incurred but this also would only be allowed where the taxpayer kept proper accounts. Furthermore, the legislation required that where a taxpayer appealed his assessment, the Commissioner “may require the person giving the notice of objection...to produce all accounts, books or other documents...relating to such income”. Clearly, the services of a professional accountant – familiar with the tax legislation published in English - would be beneficial for the taxpayer in negotiating with the local tax authorities.

Secondly, the legislation included several anti-avoidance provisions. For example, one provision allowed the Commissioner to “deem” a dividend payment from a (family) company where a dividend “could have been distributed without detriment to the company’s existing business”. In theory, it would not be possible for (family) shareholders to avoid income tax if the company did not pay dividends to those individuals - individual shareholders would be assessed as if they were in receipt of dividends! A more general provision specified that “where the Commissioner is of opinion that any transaction which reduces or would reduce the amount of tax payable by any person is artificial or fictitious...he may disregard any such transactions or dispositions and the persons concerned shall be assessable accordingly”. It is not known the extent to which the Commissioner utilised these stringent powers but it was probably rarely, given the novelty of the income tax system. Nevertheless, professional accountants and tax consultants would be a useful link in negotiation between the tax authorities and individual taxpayers.

Thirdly, the legislation applied income tax to both individuals and companies. In the case of limited liability companies – which were enabled by the Companies (Limited Liability) Law of 1922 – the tax rate on chargeable income was approximately 15 per cent and was levied at this flat rate on every pound of chargeable income. In contrast, the rate of tax paid by individuals was graduated with a marginal rate of 60 per cent on very high incomes. (Furthermore, the amount of tax payable by a bachelor or a spinster was increased, within limits, by 50 per cent so that marriage would have been a very good tax planning exercise)! Therefore, the necessity of good tax advice in forming a limited liability company in contrast to trading as a sole trader (or partnership) was obvious. Therefore, it is interesting to note that the first book on Cypriot taxation was published (in Greek) in 1941 (with a second part in 1942). Translated into English the title of this book reads: *Income Tax in Cyprus. Complete Translation of the Law, Explanation and Meaning of the Law*. Its author was Mr. D. Th. Antoniadou who, in 1942, was the founding member of the second professional accountancy firm in Cyprus and which is now part of Grant Thornton (website)<sup>4</sup>.

Additional income tax legislation during the 1940s introduced complexity and dealt with issues such as mining, shipping and insurance companies and double tax agreements. This would have increased the demand for accountants and tax practitioners. Furthermore, in 1951 new companies legislation (Companies Law, 1951) was enacted (modelled on the 1948 Act in the UK). Additional accounting provisions were introduced as were specific provisions regarding the appointment of auditors. The main provision was that a person was not qualified for appointment as auditors. In brief, qualification as auditor required membership of a body of accountants established in the United Kingdom – subsequently clarified in the Cyprus Gazette of 11th July, 1951, as being either:

- The Institute of Chartered Accountants in England and Wales
- The Society of Incorporated Accountants and Auditors
- The Association of Certified and Corporate Accountants
- The Society of Accountants in Edinburgh
- The Institute of Accountants and Actuaries in Glasgow
- The Society of Accountants in Aberdeen
- The Institute of Chartered Accountants in Ireland.

There can be no doubt that this auditing provision encouraged some (male) Cypriots to train as accountants in Great Britain during the 1950s and, on their subsequent return to Cyprus, would become influential figures in the formation of ICPAC in 1961. However, other persons could be authorised by the Governor either as having similar qualifications obtained outside the United Kingdom or who, before the commencement of the law, practiced in the Colony as an accountant (Companies Law, 1951). One of the first recipients of the Governor's discretion was the previously mentioned D. Th. Antoniadis, who with Alan Tickle, was authorised to act as auditors of companies (Cyprus Gazette, 1951).

Post World War II, Cyprus experienced prosperity fuelled, partially, by heavy investment from the British government intent on strengthening the military position of the island following the British withdrawal from both Palestine and Suez. Secondly, increased prices for metals resulted in an increase in the production of minerals (Meyer, 1962). In turn, the increase in the production of minerals increased exports of mining products beyond 60 per cent of total exports (Phylaktis, 1988). Indeed, comprehensive details of imports and exports are contained in the yearly publication of the 'Blue Book'.

It is around this time that we have anecdotal evidence of private, commercial schools being formed in Cyprus. One such institution – claimed to be a school, of accountancy, but probably a commercial school – was founded in Morphou in 1940 by Costas Sylvestros, who employed his brother-in-law, Costas Montis as a teacher. Costas Montis, had previously graduated from the Law School at the University of Athens but, since the British colonial administration did not allow graduates from Greek universities to practice law in Cyprus, he took a job (in 1938) in the Accounting office of the Greek

Mining Company in Nicosia (Montis, website). At time of writing, we have no other information on this school but it is likely that this school may have been established because of the presence of the Cyprus Mines Corporation, with its clerical employment possibilities – the town of Morphou was only 12 miles away from the mine (Lavender, 1962). Another important educator was Kyziakas Neocleus who founded a Commercial Institute in 1943, under his own name since there was a need for persons with short-hand, typing and bookkeeping skills. For example, advertisements appeared regularly in the media for “Accounting Officers” in the Government. These were attractive positions since they were permanent and pensionable but all required the Higher Examination of the London Chamber of Commerce in Book-Keeping and Accountancy or some other equivalent exam. The Neocleus Institute (in Nicosia) taught these subjects and had many successes in the London Chamber of Commerce, Government and professional accountancy exams (Neocleus, 2009). There can be no doubt that the Cypriot economy was developing quickly after the War years and Persianis (1996) suggest that this could be attributable to the Commonwealth Development and Welfare Acts of 1940 and 1945 which brought in a new era and philosophy of colonial development. These acts, he points out, allowed for more public money to be provided under a Ten Year Programme of development in Cyprus. In addition, he points out that there was the need for recruiting public servants locally, after the policy of barring Cypriots from the upper grades of the public service was terminated. Consequently, there was need for an improved educational system that would train future civil servants.

## **Cyprus Independence**

During the period 1955-59, Cyprus intensified its struggle for independence from Britain. Curfews were imposed and this adversely impacted on attendance at evening classes restricted. Panteli (1984) suggests that the turbulent years of 1955-58 were finally brought to a formal end – and peace was preserved in the important south-eastern flank of NATO – by the London and Zurich Agreements. Under these agreements Great Britain relinquished sovereignty and the whole island of Cyprus (except for the military base area of Akrotiri and Dhekelia). The agreement also allowed the permanent basing of 950 Greek and 650 Turkish troops on the island, ensuring a military presence of three NATO members and who were empowered to take joint or individual action under certain circumstances. On 16th August, 1960 Cyprus became an independent and sovereign Republic. In order to avoid confusion and gaps in the legislation stemming from the transition from colony to independent state the Constitution contained a provision, in Article 188, paragraph 1 that: “all laws in force on the date of the coming into operation of this Constitution (i.e. the British law as applying to Cyprus) shall, until amended by any legislation made under this Constitution, continue in force on or after that date, and shall, as from that date be construed and applied with such modification as may be necessary to bring them into conformity with the Constitution”.

In the 1960s there was a small number of qualified accountants on the island, most of these had qualified as either members of the Institute of Chartered Accountants in England and Wales (ICAEW), the Institute of Chartered Accountants of Scotland (ICAS) and, as they are now known, the

Association of Chartered Certified Accountants (ACCA). A group of these (UK) qualified accountants and a small number of others with experience in the field agreed to establish the Institute of Certified Public Accountants of Cyprus (ICPAC) and thus created a powerful institution from a zero base. The ICPAC was established on 4th April, 1961 with 21 founding members (see Appendix 1) and Mr. Solon Triantafyllides was elected as the first President and it now has over 2,000 members (ICPAC website). This group was concerned with the “threat of the erosion of the profession, through the existence of a host of Accountants” practising in the island without holding a recognised accountancy qualification (Christoforou, 1982, p3). [It is interesting to note that The Institute of Certified Public Accountants was formed in Greece in 1955 as a state-supervised, self-governing body with members authorised to audit the financial statements of certain companies which met the criteria of the law (Venieris, 1999)]. The early years of the ICPAC were marked by a vigorous struggle to secure statutory regulation of the profession, as this was seen at the time as the best way of securing integrity and professional independence. It was a significant and time-consuming task but the founding members were driven by a vision to establish a body of accountants in Cyprus in order to achieve recognition for the accountancy profession, which was protected by legislation (Zampelas, 2000). Perhaps the most important step in the Institute’s evolution was the approval of law 76(1)2001 by the House of Representatives, which harmonised the Cyprus legislation with the EU Directives and assigned ICPAC as the competent body to regulate and supervise the accountancy profession in Cyprus as from February 2002. Since its formation, ICPAC has played an important part in the development of the economy, maintaining a close cooperation with the Government and the government departments, the Central Bank, the Cyprus Stock Exchange and the Securities and Exchange Commission. For example, the first Chairman became Chairman of the Bank of Cyprus. The second Chairman, George Syrimis, became Chairman of the Universal Bank. Another Chairman, Xanthos Sarris founded the successful Eureka Group.

Financial reporting in Cyprus has been influenced to a significant extent by international developments. It should be recalled that the internationalisation of the accountancy profession was facilitated by the formation of the International Federation of Accountants (IFAC) on 7th October 1977 in Munich at the 11th World Congress of Accountants and membership of which was open to accountancy bodies throughout the world (IFAC, <http://www.ifac.org>). The mission for IFAC includes the strengthening of the accountancy profession worldwide and promoting adherence to high-quality professional standards and furthering the international convergence of such standards (IFAC Constitution, 2003). The Institute of Certified Public Accountants of Cyprus were one of the 63 professional accountancy bodies, from 51 countries, which were founder members of IFAC. Moreover, in 2002, ICPAC adopted the IFAC Code of Ethics and in 2004, the quality assurance system for audit firms commenced. Furthermore, in 2006 the Continuous Professional Development (CDP) system, based on IFAC standards, was adopted.

In 1981, ICPAC adopted the International Accounting Standards with the requirement coming into effect as from 1st January 1982 i.e. in relation to accounts for the financial period which ends on 31st December, 1981 (Accountancy Cyprus, 1982). According to Christoforou (1982) this was the most

important single development in the field of financial reporting in Cyprus since the enactment of the Companies Law of 1951. However, other financial reporting developments were taking place in the context of the European Union (and it should be remembered that Cyprus was admitted to the EU in 2004). According to Nobes and Parker (2008) by the end of the 1990s it was obvious that harmonisation led by the IASC was steaming ahead but that harmonisation by means of Directives was being left behind. In a radical shift of policy, the European Commission published a draft Regulation in 2001 (EU Regulation, 2001), which was approved by the European Parliament and by the Council of Ministers in 2002. The regulation required EU listed companies, including banks and insurance companies, to prepare their consolidated financial statements in accordance with international financial reporting standards (IFRSs) starting with financial statements for the financial year 2005 onwards. The previous adoption by ICPAC of IFRSs, together with the EU Directive means that all companies in Cyprus must follow IFRSs, not just listed companies.

Another development in the history of accounting in Cyprus should be noted. In March 1982, after 21 years of existence, "Accountancy Cyprus" was launched as a professional journal of the Institute of Certified Public Accountants of Cyprus through which "the Council and Committees of the Institute would communicate with the membership on a constant basis, and which would provide the necessary forum for members to express views and examine all aspects of professional work" (Christoforou, 1982, p.3). The first edition consisted of 28 pages, with articles entitled "the Financing of Public expenditure", "Your guide to the Income Tax", and invaluable piece of "Audit Checklist for Limited Companies", "Adoption of International Accounting Standards in Cyprus" and other items on current tax issues such as Double Tax Agreements, Tax cases, and Customs and Excise matters, various Institute News items – with a liberal sprinkling of photographs and, finally, advertisements for a bank, a private accountancy college and an insurance company. In addition it worthwhile to note that this first edition of Accountancy Cyprus contained the names of 10 qualified accountants (either members of ICAEW or ACCA) who were promoted in the Department of Inland Revenue and also disclosed that some of the large, international professional accountancy firms, such as Deloitte, Ernst and Whinney, Horwarth & Horwarth had established links with local Cypriot firms. (Accountancy Cyprus, 1982).

In terms of examinations, ICPAC operates a joint Examination Scheme with the Association of Chartered Certified Accountants (ACCA) based on the ACCA qualification i.e. the ACCA examination scheme and syllabus. This Joint Examination scheme differs to the ACCA professional Scheme only to the extent that it includes variant papers on Cyprus Corporate and Business Law and Cyprus Taxation. The joint examination scheme is administered by ACCA based on a service agreement between ACCA and the ICPAC. This arrangement ensures the quality and reputation of the ICPAC qualification. In addition, based on EU Directives, there are reciprocal arrangements for membership between all recognised accounting bodies in EU member States including, for example, ICAEW, ICAS and ICAI etc.

The 1960s in Cyprus also witnessed the formation of third-level (private) business colleges. The background was simple to comprehend: many Cypriot students wanted to engage in third-level study but there was no local university. Hence, UK professional qualification and accreditation was the preferred choice of location but it was expensive to study abroad. Consequently, local third-level colleges were formed. It appears that the first business college, named Cyprus College, was founded in 1961 with the purpose of providing a well-rounded education of high calibre where students would acquire the necessary academic and practical knowledge in the field of Business Administration (Cyprus College, website). In 1977, BPP Cyprus was established and was the first college to specialise in the provision of professional courses, including a suite of professional accountancy courses. In turn, Cyprus College acquired BPP Cyprus and formed, in 1998, a School of Professional Studies. Another institution, Intercollege, was established in 1980 as a tertiary level educational institution, with emphasis on British professional education bodies e.g. Institute of Marketing and in 1994, it acquired Accountancy Tutors, which was highly specialised group offering professional accountancy tuition. To highlight the importance of accounting education in Cyprus, PWC funded the Chair in Applied Accounting Research – the first ever chair to be subsidised by private businesses in Cyprus. Its first holder was Professor Maria Kapardis who held the Chair from 2002 to 2007. Finally, the Nicosia Technical and Economics School was founded in 1965 and, since 1975, has offered higher education programmes of study as Frederick Institute of technology. When the Cyprus Law for private universities came into effect, the three above institutions applied for university status, with their applications being evaluated by the Evaluation Committee for Private Universities (website: <http://www.ecpu.ac.cy>) and were approved by the Cyprus Government on 3rd October 2007. Thus, Cyprus College, Frederick College and Intercollege would be registered as (private) universities with new titles of the European University – Cyprus, Frederick University and Nicosia University, respectively (Cyprus Mail, 13 September, 2007). For sake of completeness, one should also note that the Cyprus University of Technology (TEPAK) was founded by law on December 2003, and which incorporated a number of colleges in the Limassol region, and welcomed its first students on September 2007. The objectives of TEPAK include offering education to students of a high scientific, technological and professional level. These new universities, together with the (public) University of Cyprus can be described as the principal Cypriot universities operating in accordance with Cypriot legislation at time of writing.

The University of Cyprus was not established until 1989 and admitted its first students in 1992 (Charitou, 1999). It should also be noted that the University of Malta was established in 1769, based on a Jesuit presence of some 177 years (University of Malta, website). Within the University of Cyprus, the School of Economics and Management has the responsibility for teaching various business subjects. This School has two departments – the Department of Economics and the Department of Public and Business Administration – and the latter department offers an undergraduate BSc degree in Accounting. (BSc degrees are also offered in Finance, Management Science and Marketing/Management). There are two (full) professors of Accounting – Professor Andreas Charitou and Professor Nicos Vafeas – and other teachers of accounting. (University of



Cyprus web site). The accounting programme is described as providing in-depth tools, and important exemptions, to prepare students for the professional examinations of the ICAEW, ACCA and CIMA (Charitou, 1999). While the department does not (currently) offer a Masters degree in Accounting, a PhD in Accounting is available.

Traditionally, some aspiring accountants in Cyprus sought to qualify as a (UK) chartered accountant and had to move to the UK to complete their training. However, this changed in 1993, when the Institute of Chartered Accountants in England and Wales (ICAEW) – which is the oldest, largest and most prestigious accountancy body in Europe with over 100,000 members - decided to offer its training for the first time outside the jurisdiction of the UK. Cyprus was elected due to the high standard that the accountancy profession maintains on the island and the first students to qualify as ICAEW members through working and studying in Cyprus did so in 1996. Thereafter, although there are alternatives available, most Big Four students on the island now seek to join the ICAEW (Perrin, 2008). Intercollege, being the leader in the area of professional training, entered into cooperation with the largest Chartered Accountancy training company in the UK, namely, Financial Training Company, with the aim of offering a high quality course in Cyprus. Take-up of the local ACA training has increased strongly in recent years – with the number of new students already exceeding 200 in 2008 (Perrin, 2008).

One should also note that in relation to the development of accounting practice, the growth of the related discipline of Internal Auditing. According to Koumeras (2002) Internal Auditing was initiated by the British administration soon after World War II, when Cyprus was still a colony of Great Britain. Since, at that time, most of the Cyprus' companies were small, family owned entities, is not surprising that internal auditing began in government organisations and major public utilities and, gradually, the profession expanded into, for example, the banking and insurance sectors. Currently, the only industry subject to laws requiring the establishment of internal auditing is banking. The Central Bank of Cyprus, regulator for all Cyprus-based banks, has mandated that all banks establish an internal audit department. The Institute of Internal Audit – Cyprus was formed in 1998 with some 41 members but now has expanded to more than 125 members (in 2002) and approximately 400 practitioners.

## Summary

This paper has provided a very brief and inadequate overview of some aspects of accounting history in Cyprus. There is much more work to be done which will involve looking at specific periods in greater detail and highlighting the political, economic, legal and social influences that brought about accounting change in Cyprus. This could include investigating individual companies such as the (defunct) Cyprus Mines Corporation or consulting the archives of old, established companies operating in Cyprus. Furthermore, additional insights could be obtained by researching the teaching of accounting at various schools and talking to some teachers. In addition, many accountants may have interesting and colourful stories to tell. It is a fascinating challenge!

## Footnotes

1. Waqf (plural: awqaf) generally means the permanent dedication of a portion of one's wealth for the pleasure of Allah and ownership thus passes from the waqif/a (person making the waqf) to Allah and the property is then used for purposes that are shariah compliant (Cajee, website).

2. This handbook was prepared, hurriedly, for information purposes, since in January 1964, there was a slight possibility that American troops might be dispatched to Cyprus to help keep the peace under a proposed NATO force.

3. It is interesting to note that an Irish Chartered Accountant was listed as Accountant General, the Treasury in 1958 (Institute of Chartered Accountants in Ireland, 1958), having qualified in 1939. Prior to this time, he took up a position as Chief Accountant of the Central Electrification Scheme in Cyprus in the early 1950s – the Cyprus Electricity Authority, a public corporation created in 1951 - having previously worked as Internal Audit Assistant for the Electricity Board for Northern Ireland some years previously (Institute of Chartered Accountants in Ireland, 1941/42 and 1951/52).

4. The first professional accountancy firm in Cyprus was Russell and Company which was formed on 10th May, 1937, registered as a partnership in Cyprus under the Partnership Law of 1928, and which is now part of Ernst & Young. Its first partners were John Charles Sidley (Cairo), William Gibson Carmichael (Alexandria), Robert Rainie Brewis (Cairo), Sherley Dale (Cairo), Oscar Couldrey (Alexandria) and Alfred Nicholson Young (Jerusalem). The second oldest firm is D. Th. Antoniades, which was established in 1942 and is now part of Grant Thornton. As far as can be established, the third accountancy firm was Syrimis & Company, formed in 1948, and which is now part of KPMG. Subsequently, we see the formation of other accountancy firms. Hassapis and Co "prides itself on being one of the oldest established and most prestigious accountancy firms on the island of Cyprus (being) established in 1954" (website). Another accountancy firm, Kyprianides, Nicolaou & Associates also describe themselves as "one of the oldest auditing and accounting firms in Cyprus" having been established in 1955 (website).

5. Chrysilios Pelakanos, a tax partner with PricewaterhouseCoopers in Cyprus began his training under this arrangement in 1993 and, qualifying in 1996, he became one of the first members if the institute to gain his ACA through working and studying on his home island.

## Biography

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Edward Cahill prize (in 2006) for the outstanding article in The Irish Accounting Review for the period 2003 – 2005.

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### Appendix 1: Founding members of ICPAC in 1961 \*

5. Demetris Antoniadis		
12. Andreas Apostolides		
10. Costakis Christofides		
16. Takis Christofides		
6. Loizos Demetriou		
18. Gavriel Gavrielides		
15. Paul Graham		
17. Andreas Iacovides		
7. Nicos Ionides ACCA		
20. Nicos Lakoufis ICAEW	President 1969/70 & 1982/84	
3. Andreas Loizides CA	President 1967/69	
9. Thiseas Metaxas		
4. Nicos Miltiadou ACCA		
14. Angelos Nicolaou		Andreas Nicola ? ACCA
19. Wilfrid Normand CA		
11. Ioannis Papakyiakou		
21. Angelos Pikis FCA	President 1965/67	
8. Xanthos Sarris ACCA		Founder of Eureka Group
2. George Syrimis ACCA	President 1963/65 & 1973/74	& Chair, Universal Bank
13. Michael Timenides ACCA		
1. Solon Triantafyllides ICAEW	President 1961/63	& BoC Chairman
Source: ICPA website <a href="http://icpac.org.cy/icpac.nsf/dtthistorey_en/dtthistory_en?OpenDocument">http://icpac.org.cy/icpac.nsf/dtthistorey_en/dtthistory_en?OpenDocument</a>		

\* No entries for these founder members were found in the following publications:

*International Who's Who (1949). London: Europa Publications*

*International Who's Who (1972/73). London: Europa Publications*

*Who's Who (1963) London: Adam and Charles Black*

*Who's Who (1974). London: Adam and Charles Black*

*Who's Who in European Institutions and Organisations (1982) Zurich: Verlag AG*

## ASSESSING QUALITY OF FINANCIAL REPORTING THROUGH AUDIT REPORTS: THE CASE OF GREEK MUNICIPALITIES

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### Abstract

In this paper we examine the level of information quality obtained by the end-of-the-year accrual financial statements of Greek municipalities in terms of accounting principles compliance. The level of compliance is measured by two alternative compliance indices developed on the basis of data retrieved by auditors' reports. Moreover, based on previous studies we investigate the effect of certain factors on these compliance indices. Our results indicate that there is room for improvement in relation to the quality of the information content of municipalities' financial reports. Additionally, variables that relate to the auditor size as well as to the municipality size, wealth and experience in accrual accounting were found to exhibit an influential role on the quality of the accounting information provided to stakeholders through end-of-the-year financial statements in terms of accounting standards compliance. The paper attempts to assess whether the introduction of accrual accounting in a public sector setting succeeded in producing the expected quality of accounting information in practice via analyzing compliance with accounting standards.

**Keywords:** accrual accounting, compliance indices, audit reports, quality of financial reporting, municipalities, Greece.

### Introduction

The continuum of problems faced by many governments worldwide such as the squander, the misallocation and the embezzlement of funds as well as the provision of services to taxpayers that do not represent value for money, has led, among others, to a public demand for radical changes towards the improvement of public sector activities. More specifically, pressure has been applied to governments to become more effective, efficient and accountable for the use of publicly generated funds (Hoque and Moll, 2001). The answer to these problems came through the private sector despite its fundamental differences in relation to its public counterpart in terms of the nature of its activities and the goals it pursues (Carnegie and West, 2003). The techniques and management systems that have been developed within the private sector are perceived to be able to enhance quality, efficiency and accountability even when applied to the public sector. The transfer of these techniques from the private sector realm to the public sector has been known as the New Public Management (hereafter NPM) the utility and results of which are still under debate in the relevant literature (see for example

on the topic of accounting reforms in the NPM context: Lapsley, 1999; Caccia and Steccolini, 2003; Carlin, 2005).

Among the most important changes NPM brought to public sector organizations was the transformation of the traditional budgetary cash accounting systems that essentially focus on inputs, to output orientated accrual accounting systems that closely resemble those of the private sector. This change was deemed necessary because of the key role accounting information plays in decision making (Pettersen, 2001); providing decision makers with more relevant and of higher quality accounting information can ultimately enhance the appropriation of taxpayers' funds. This rationale was based on the assumption that cash accounting has a narrow focus since it exclusively tracks cash revenues and expenditures that occur within the fiscal period, whereas accrual accounting has the advantage of focusing on resource flows according to the period in which they are generated or consumed which in turn allows for a better understanding of the cost of services provided (Guthrie, 1998). This also represents a shift from accountability in terms of process accountability to results accountability (Hood, 1995). It is contended that without accrual accounting a vast array of important information which can be used to improve decision making is lost (Guthrie, 1998). In addition to that, reports generated on the basis of accrual accounting improve the level of disclosure to stakeholders (e.g. supervising bodies, taxpayers, etc) in relation to the financial condition of public sector organizations and therefore improve accountability. This, according to Chan (2003), can potentially lead to debates on intergenerational equity that is the extent to which decision makers serve the needs of the current generation without adding financial burdens to future taxpayers. Moreover, as Hood (1995) notes, there is a conception among NPM supporters that the private business accounting methods allow for the close costing and evaluation of the activities of public sector servants and professionals.

However, the expected benefits of an accounting reform cannot be obtained solely by introducing accruals accounting in public sector entities; deviations from accounting standards would seriously affect the reliability of end-of-the-year statements and thus hinder decision-making and accountability. Thus, it is imperative that the resulting accrual accounting systems provide decision makers with relevant and reliable information and fulfill their accountability role. For these to be achieved, compliance with the predetermined accounting principles should be ensured.

Compliance is crucial in order for financial statements to be informative. The audit report annexed to the annual financial statements contains useful information in relation to an entity's adherence to accounting standards. Even though it is not possible for an external auditor to identify every single case of material misstatement (Wright and Wright, 1997), the audit report serves as a proxy of the quality of the accounting statements and therefore provides legitimization to an entity that has fully complied with accounting standards.

Municipalities in Greece that satisfy certain criteria (i.e., more than 5,000 citizens or revenues more than approximately 1.5 million euros) were to adopt accrual accounting from 1/1/2000 onwards (Presidential Decree 315/99). The set of accounts they are to produce every fiscal year includes: The



Balance Sheet, The Profit and Loss Account and The Statement of Income Distribution. The above mentioned accrual accounting statements are accompanied by an Auditor's Report. The auditor's report indicates that the audit is conducted in accordance with the Presidential Decree 315/99 and includes an opinion as to whether the financial statements are presented fairly. The audit is performed only by Certified Chartered Accountants similar to the private sector.

The scope of the current study is twofold. Firstly we seek to examine the informative quality of Greek municipalities' end-of-the-year financial statements. For this purpose a thorough study of the audit reports of the financial statements that were published by Greek Municipalities for the fiscal year 2003 was conducted. Secondly, we investigate the factors that exert an influential role to the level of accounting standards compliance. More specifically, we try to identify relations among several endogenous and exogenous characteristics of municipalities and the level of the compliance they exhibit towards accounting standards.

The rest of this paper is structured as follows: the next section provides a review of the literature while the third section describes the research questions and the hypotheses development. The methodology employed is described and the results are presented in the fourth and fifth section respectively. Finally the two last sections host the discussion of the results of the study and our concluding remarks.

## **Literature review**

The adherence of public sector organizations to accounting standards has been evaluated in a number of studies. Ingram's (1984) seminal study tested an extensive list of variables in order to determine the factors that affect the accounting practices in the United States. More specifically, Ingram tested the influence of these factors on local governments' disclosure of accounting information. Disclosure was measured via a simple dichotomous scoring index that has been used (mostly modified) in a number of studies such as those conducted by Robbins and Austin (1986), Ingram and DeJong (1987), Giroux (1989), Cheng (1992), Allen and Sanders (1994), Coy et al. (1994), Christiaens (1999), Coy and Dixon (2004), Ryan et al. (2002), and Christiaens and Van Peteghem (2007). Through these studies it has become evident that the quality of reporting by public sector organizations is not perfect; nevertheless, it seems that time has a beneficial effect over compliance (Ryan et al., 2002).

As regards the effects of a plethora of external and internal factors that have been tested in previous studies as having an influential role on the level of compliance with accounting standards the empirical results found in literature do not coincide. More specifically, Ingram, (1984), Ingram and DeJong, (1987) and Christiaens (1999) did not find any statistical relationship between the municipalities' reliance on dept and compliance. On the contrary, the empirical evidence in the studies of Robbins and Austin (1986) and Cheng (1992) supported such a relationship. Ingram (1984) and Robbins and Austin (1986) assumed but they did not succeed in supporting with empirical evidence a positive relationship between compliance and municipal wealth. Also, the relevant literature remains inconclusive as to the effect of an organization's size on compliance with

accounting standards. More specifically, even though Christiaens (1999) revealed a positive relationship, Robbins and Austin (1986) and Ingram and DeJong (1987) did not find such a relationship.

The literature also includes surveys that provide corroborative evidence that external auditors influence the quality of the financial statements issued by their clients (Beattie et al. 2000). However, this research stream is mainly concentrated on the private sector. Becker et al. (1998) and Francis et al. (1999) have shown that the external auditor size acts as a constraint to the client's earnings management practices. Possible explanations for that are the higher loss audit firms may incur in case of an audit failure such as quasi rents (DeAngelo, 1981) or brand name reputation decline (Klein & Leffler, 1981). However, in the public sector realm Robbins and Austin (1986) did not reveal such a relationship. Falkman and Tagesson (2008) in a survey in Swedish municipalities could not reject the hypothesis that auditing firms influence the compliance with accounting standards.

As to the influence of the attitude of politicians towards the level of compliance with the accounting principles and with the accounting reform in general, Hepworth (2003) claims that it is imperative that politicians accept the need and recognize the benefits of such a reform. Finally, Christiaens and Van Peteghem (2007) who tested the effect of a municipality's accrual accounting experience on its compliance to accounting standards were inconclusive regarding the effect of experience on compliance. However, Ryan et al. (2002) found a positive association between the years of accrual accounting experience and compliance.

### **Research objectives and hypotheses development**

The accounting reform in Greek municipalities aimed at the improvement of accounting information provided to decision makers; this was expected to enhance fund management and improve accountability (for a review of the chronicle of accrual accounting introduction in municipalities see Cohen et al. 2007). However, for this to happen, the output of the accounting system should provide relevant and useful information. The present research study seeks to determine the quality of accounting information provided by Greek municipalities' end-of-the-year financial statements. For this purpose we examine whether Greek municipalities have deviated from accounting standards, by analyzing the information included in audit reports.

The quality of Greek municipalities financial reporting is heavily dependent on compliance with accounting standards. A low (high) level of compliance with the standards that were established through PD 315/99 would be the indicator of poor (good) informative quality of the accounting data. In other words, we want to measure the "development gap" (Ter Bogt and Van Helden, 2000) that is the difference between the ideal concept of accounting changes and its ultimate development. In order to determine the level of compliance with accounting standards we employ compliance indices. Compliance indices have been used in previous studies (such as those by Christiaens, 1999; Christiaens and Van Peteghem, 2007) and can serve as objective measures of the quantification of the extent of adherence to accounting standards. Through such measures it is also possible to draw comparisons among various municipalities. Bearing in mind though that by using a single

compliance index we may fail to accurately capture the full breadth of adherence with standards we use two alternative indices that are expected to encapsulate the extent of adherence to accounting standards. We use remarks in auditors' report in order to assess compliance.

The Greek central government has established compulsory reviews by external auditors of the municipalities' annual financial statements. The audit must be performed according to the Generally Accepted Auditing Standards, which have been established by the Greek Institute of Certified Auditors and Accountants. The audit opinion provides assurance that the financial statements have been prepared according to the Generally Accepted Accounting Principles of the Greek State and the PD 315/99, and that they fairly present the financial position, the results of operations, and the disposal of surplus or deficit of the audited firm. The comments presented in the audit opinion refer to material items and disclose instances where generally accepted accounting principles and/or the laws of the Greek state have not been followed. Therefore, the audit report plays an important role by acting as a buffer against low-quality information. Auditors attest the credibility of the accounting figures reported by public sector organizations in order to deal with the problems that arise from the principal-agent relationship that exists between the management of these entities and their various stakeholders (The Institute of Internal Auditors, 2006). Moreover, external auditors provide through their opinion a degree of "comfort" to stakeholders as to the reliability of accounting figures (Power, 1997: 124). Thus, high-quality municipalities' financial reports should not only comply with the accounting standards but at the same time they should be accompanied by external auditors reports that comment on their adherence to them.

This study also aims at determining the impact on the quality of accounting information of certain factors cited in previous studies. For this purpose we examine the following hypotheses:

### **Debt reliance**

A municipality that relies on debt in order to finance its operations should be expected to be subject to tight control by financial institutions. Therefore it would be restricted in applying standards without deviations that could seriously influence its financial position and performance.

**H1:** Municipality reliance on debt positively affects its compliance with accounting standards.

### **Municipality's Wealth**

Municipalities that do not heavily rely on government subsidies are expected to be keen on showing their good financial health and therefore be more willing to comply with accounting standards so as not to cast doubts in relation to their true financial condition on all interested stakeholders. This behavior is also expected to be driven by mayors who wish to politically benefit from their municipalities' good financial health.

**H2:** Municipality wealth is expected to be positively associated with compliance.

**Municipality's Size**

A municipality with a large population is expected to maintain a relatively large number of employees who can work on preparing high quality end-of-the-year statements. In addition to that, it could be argued that municipalities of a significant size draw more attention from the press in comparison to smaller ones and are therefore more inclined to comply with standards so as to avoid any negative publicity.

**H3:** Municipality size positively affects its compliance with accounting standards.

**Auditor's size**

The size of the auditor is expected to exert a positive effect on compliance. Larger audit firms are assumed to possess higher level of competence in comparison to smaller audit firms. Moreover, audit firms of a significant size are less dependent on specific clients and therefore can provide more high-quality services. Finally, in case of an audit failure larger audit firms have more to lose than auditors of a smaller size.

**H4:** External auditor size positively influences the accuracy of municipality's end-of-the-year statements.

**Mayor political support**

The accounting reform process is expected to be more favorably appreciated by mayors who originate from the political party that governs. In Greek municipalities the elected mayors are the driving force behind the overwhelming majority of the projects these entities undertake. Local government elections in Greece are to a great extent a political arena of the major parties in which they antagonize for political control of the municipalities. The mayors are almost exclusively elected with the support of the major political parties that comprise the Greek Parliament. If a mayor has chances of retaining the support of a major political party he/she must show active support to the party's agenda. This leads us to assume that mayors who are elected with the support of the ruling party will actively seek the success of the reform so as to show commitment to the governmental program. Therefore it should be expected that in such cases municipalities exhibit a higher compliance with the accounting standards in comparison to municipalities whose mayors belong to opposition parties.

**H5:** Municipalities comply with accounting standards more readily if their mayors were elected with support from the ruling political party.

### Accounting learning effects

Local governments are expected to face a plethora of shortcomings when they have an accrual accounting system installed for the first time. This would potentially lead them to exhibit deviations from accounting standards. However, it is likely that these problems would be dealt with in later periods thanks to the familiarization of municipalities with the accrual concept. For instance, it is possible that asset valuations in the first balance sheet issued by a municipality have not been performed with absolute adherence to accounting standards due to the lack of experience of the accounting personnel or the lack of the necessary data. Nevertheless, these difficulties should be progressively overcome as a municipality is getting familiarized with the new accounting system.

**H6:** Municipalities with long-term experience in accrual accounting will exhibit higher compliance with accounting standards.

### Methodology

For the purposes of our study we examined the audit reports of Greek municipalities' end-of-the-year financial statements for the fiscal year 2003. These reports correspond to all municipalities' fiscal year 2003 financial statements available in the Ministry of Interior in March 2006. These audit reports contain monetary and qualitative information that can be utilized in order to evaluate the degree to which a municipality adheres to accounting standards. Even though according to studies conducted in the private sector (Wright and Wright, 1997) auditors do not report on every single material misstatement, we expect that the audit reports will give a good indication of the extent of adherence to accounting standards.

We have constructed two alternative compliance indices. For the first compliance index (C1), we use the number of audit remarks as a proxy of municipalities' adherence to accounting standards. This index offers a qualitative approach as to the overall quality of the end-of-the-year financial statements. Moreover, it summarizes not only the cases where the municipality has intentionally or not misstated its financial position, but it also includes cases where the municipality shows operational shortcomings (for example, the auditors would comment on the quality of the internal control function of a municipality). It is clear that a municipality that is the subject of a large number of auditor comments regarding the accuracy of its financial reports produces low-quality data for the assessment of its performance by internal and external stakeholders. However, in cases where the audit report contains only a small number of comments in relation to the reliability of the municipality's accounting figures, this is a proxy of high-quality information.

$C1 = \text{Sum of the number of comments (1)}$

The second alternative index (C2) was constructed on the basis of the dichotomous scoring compliance index based on Ingram (1984). In particular, after a careful examination of the content of

the audit reports for the fiscal year 2003, we summarized 15 distinct items-remarks where auditors have identified that Greek municipalities failed to adhere to accounting standards. For every item-remark we used a dichotomous variable of 0 and 1; when a municipality failed to comply with the relevant accounting standard it would take a mark of zero. On the other hand, if it complied it would take a mark of 1. The overall compliance index was calculated for every municipality as the sum of its scores in all dichotomous variables; a municipality's index would take the value of 15 if it adhered to all accounting standards. The items-remarks (R1 to R15) that were used in order to construct the compliance index C2 are the following:

- (R1) Existence of internal audit function
- (R2) Accurate valuation of investments
- (R3) Accurate calculation of provisions
- (R4) Accurate valuation of accounts receivables
- (R5) Proper cash account management
- (R6) Accurate fixed assets valuation
- (R7) Proper operation of the accrual accounting system
- (R8) Accurate valuation of liabilities
- (R9) Identification of contingent liabilities
- (R10) Proper operation of computer information systems
- (R11) Accurate recognition of revenues
- (R12) Accurate recognition of expenses
- (R13) Accurate calculation of depreciation - amortization
- (R14) Operation of a cost accounting system
- (R15) Miscellaneous issues

$$C2 = \sum_{i=1}^{15} R_i \quad (2)$$

Where:

$R_i$  corresponds to each one of the 15 aforementioned items-remarks ( $i=1$  to 15).

$R_i$  take the value of 1 if the municipality adheres to the accounting standard, whereas  $R_i$  takes the value of 0 if the municipality fails to comply with the relevant accounting requirement.

It should be noted however that according to Coy et al. (1993) the methodology of using dichotomous indices (such as indices C1 and C2) suffers from the lack of discrimination in terms of the importance of the items they include as well as from the inability to quantify the extent of a

misstatement. Nevertheless, we believe that these indices are suitable for our research purposes. The reason is that the auditors' remarks in most cases do not provide adequate data for misstatements quantification. More specifically, even though the audit reports provide ample information as regards various accounting practices that have resulted in misstatements, there are only a few cases of quantification of these misstatements. It has to be noted that regardless of the severity of the deviations from the accounting practices that identified in audit reports, the auditors expressed an unqualified<sup>1</sup> opinion concerning the accuracy of the respective accounting statements. This is not however a unique phenomenon in the Greek context; the private sector audits follow the same pattern. However, the remarks in the auditors' reports that accompany private sector financial statements when revealing areas where accounting information deviates from the accounting policies that come from legislation<sup>2</sup> they also quantify their effect (see also Ghicas et al., 2008). These reports albeit regarded as of unqualified opinion in Greece, they would be considered as audit qualifications in USA and UK (Owusu-Ansah and Leventis, 2006).

Subsequently, in order to assess the effect of municipality factors on compliance we run the following two multivariate regressions

$$C1 = a + b_1 LDCap + c_1 OR/TR + d_1 PsqK + e_1 Auditor + f_1 Mayor + g_1 LE + u \quad (3)$$

$$C2 = a + b_2 LDCap + c_2 OR/TR + d_2 PsqK + e_2 Auditor + f_2 Mayor + g_2 LE + u \quad (4)$$

Where:

LDCap is calculated by dividing the long-term debt of the municipality by the number of the municipality inhabitants.

OR/TR is calculated by dividing municipality operating revenues by the total municipality operating revenues including central government subsidies

Psqk is calculated by dividing municipality population by its size in square kilometers.

Auditor is a dummy variable taking the value of 1 if the Auditor is SOL and 0 if not<sup>3</sup>.

Mayor is a dummy variable taking the value of 1 if the Mayor is supported by the ruling government party and 0 if not

LE is a dummy variable taking the value of 1 if a municipality has issued accounting statements based on the accrual concept in previous operating periods and 0 when year 2003 was its first issuance year.

The proxy used in order to test our hypotheses as well as the expected sign of the independent variables for each of the two multivariate regressions are presented in Table 1.

<i>Hypotheses</i>	<i>Variable</i>	<i>Expected sign for explanatory Variable C1</i>	<i>Expected sign for explanatory Variable C2</i>
<i>H1: Municipality reliance on debt positively affects its compliance with accounting standards.</i>	<i>Long term Debt per capita (LDCap)</i>	-	+
<i>H2: Municipality wealth is expected to be positively associated with compliance</i>	<i>Own revenues/Total revenues ratio (OR/TR)</i>	-	+
<i>H3: Municipality size positively affects its compliance with accounting standards</i>	<i>Population per square kilometer (Psqk)</i>	-	+
<i>H4: External auditor size positively influences the accuracy of municipality's end-of-the-year statements</i>	<i>External auditor's size (Aud)</i>	-	+
<i>H5: Municipalities comply with accounting standards more readily if their mayors were elected with support from the ruling political party</i>	<i>Mayor support from the ruling government party (Mayor)</i>	-	+
<i>H6: Municipalities with long-term experience in accrual accounting will exhibit higher compliance with accounting standards</i>	<i>Issuance of accrual accounting statements in previous periods (LE)</i>	-	+

*Table 1: Hypotheses, independent variables and expected signs*

## Statistical Results

We obtained through the Ministry of Interior Public Administration and Decentralization (MIPAD) the annual accounting statements of 185 Greek municipalities issued for the fiscal year 2003. A thorough examination of their corresponding audit reports was conducted so as to construct the two alternative compliance indices. The data for the construction of the independent variables that could not be retrieved from the financial statements was obtained through the National Statistical Bureau or the site of MIPAD. The following table (Table 2) summarizes some basic descriptive statistics of the two alternative compliance indices.



<i>Compliance Index</i>	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
<i>C1</i>	185	0.00	11.00	3.7243	2.4394
<i>C2</i>	185	4.00	15.00	11.5405	2.0825

Where:

*C1 is the number of the auditor's comments.*

*C2 is the overall compliance index that is calculated as the sum of the 15 dichotomous variables that refer to the municipalities' compliance with accounting practices.*

*Table 2: Descriptive statistics for the two alternative compliance indices*

Indices C1 and C2 indicate that the annual accounting statements of Greek municipalities in general deviate from the accounting standards; the descriptive statistics show that on average the audit reports include a number of remarks in relation to the municipalities' compliance.

The descriptive statistics (see Table 2) clearly indicate that auditors did not refrain from revealing areas of non-compliance with accounting standards. The following table (Table 3) shows the issues covered by the auditors' remarks where it is shown that valuation issues and the non-existence of the internal control function were the most encountered issues by the external auditors.

We tested whether the two indices C1 and C2 have a negative linear relationship<sup>4</sup>, which could indicate that even though they measure different aspects of compliance they actually closely measure the same phenomenon. The statistical results indicate that a strong negative linear relationship actually exists (Pearson correlation coefficient: -0.933 significant at 1%, Spearman correlation coefficient: -0.969 significant at 1%). Even though one could argue that such a result should be expected since index C2 relies heavily on index C1, it has to be noted that in many cases one specific audit remark referred to two or more accounting practices that resulted in misstatement of the accounts. However, in other cases, these remarks were exclusively informational on various aspects (e.g. first time accrual accounting statements publication) bearing no information regarding deviations from standards.

<i>Auditor's Remark</i>		<i>Number of municipalities that adhered to the accounting standard</i>		<i>Number of municipalities that failed to adhere to the accounting standard</i>	
1.	<i>Existence of internal audit function</i>	97	(52.43%)	88	(47.57%)
2.	<i>Accurate valuation of investments</i>	71	(38.38%)	114	(61.62%)
3.	<i>Accurate calculation of provisions</i>	164	(88.65%)	21	(11.35%)
4.	<i>Accurate valuation of accounts receivables</i>	46	(24.86%)	139	(75.14%)
5.	<i>Proper cash account management</i>	162	(87.57%)	23	(12.43%)
6.	<i>Accurate fixed assets valuation</i>	156	(84.32%)	29	(15.68%)
7.	<i>Proper operation of the double entry accounting system</i>	140	(75.68%)	45	(24.32%)
8.	<i>Accurate valuation of liabilities</i>	157	(84.86%)	28	(15.14%)
9.	<i>Identification of contingent liabilities</i>	166	(89.73%)	19	(10.27%)
10.	<i>Proper operation of computer information systems</i>	176	(95.14%)	9	(4.86%)
11.	<i>Accurate recognition of revenues</i>	168	(90.81%)	17	(9.19%)
12.	<i>Accurate recognition of expenses</i>	170	(91.89%)	15	(8.11%)
13.	<i>Accurate calculation of depreciation - amortization</i>	168	(90.81%)	17	(9.19%)
14.	<i>Operation of a cost accounting system</i>	177	(95.68%)	8	(4.32%)
15.	<i>Miscellaneous issues</i>	117	(63.24%)	68	(36.76%)

Table 3: Areas of non-compliance contained in audit reports

As regards the effect of the factors described in our research hypotheses on the extent of compliance with accounting standards, we ran the multivariate regressions (3) and (4).

The regressions have been tested for collinearity problems. The values of VIF of all explanatory variables in both regressions in Table 4 did not exceed the value of 10. The results presented in Table 4 indicate that among the six variables which were tested for effects on a municipalities' compliance with accounting standards, the municipality size and wealth, the size of the external auditor and the learning effects were the statistically significant variables.

More specifically, our hypothesis H4 was verified since both regressions exhibited that a higher level of compliance is positively related to the size of the auditor. However, our results go against hypotheses H2, H3 and H6 since our empirical evidence supports that municipalities that are either of a considerable size, or affluent, or have acquired familiarization with accrual accounting end-of-the-year statements in previous periods, did not actually deliver better quality reports in year 2003. Possible explanations for this phenomenon concerning the wealth and size of the municipalities could be that on the one hand wealthy municipalities do not rely on government subsidies to finance their operations and have therefore no pressure from the central possibly experience bureaucratic problems that make the adoption process more rigid in comparison to smaller local governments where there is more flexibility. Finally, the adversely expected result evidenced in relation to the

learning effects could be indicative of an unwillingness of municipalities to improve the quality of their accounting statements throughout time. This finding would be justified on the grounds that municipalities perceive accrual accounting as just a legitimate obligation they have to comply with and they do not strive towards information improvement. Moreover, any deviations from accounting standards that would be excused or overlooked by audit firms during the first year of accrual accounting implementation would be identified in audit reports in the following years when auditors would discover that their recommendations were not seriously taken into account.

The OLS regression results are presented in the table below (Table 4):

	$C1 = a + b_1 LDCap + c_1 OR/TR$ $+ d_1 PsqK + e_1 Auditor + f_1 Mayor$ $+ g_1 LE + u$	$C2 = a + b_2 LDCap + c_2 OR/TR$ $+ d_2 PsqK + e_2 Auditor + f_2 Mayor$ $+ g_2 LE + u$
<i>a</i>	2.957*** (4.448)	12.133*** (21.082)
<i>b</i>	-0.000567 (-0.192)	0.000941 (0.368)
<i>c</i>	2.281** (2.180)	-1.556* (-1.717)
<i>d</i>	0.000082* (1.690)	-0.000088** (-2.092)
<i>e</i>	-1.148*** (-3.087)	0.734** (2.279)
<i>f</i>	-0.401 (-0.938)	0.561 (1.518)
<i>g</i>	0.601* (1.670)	-0.595* (-1.910)
<i>R</i> <sup>2</sup>	0.137	0.110
<i>adjusted</i> <i>F-Value</i>	5.783***	4.723***
<p>***, **, * indicate that the result is statistically significant at the 1%, 5%, and 10% level respectively  <i>t</i>-values are shown in brackets</p> <p>Where:</p> <p><i>C1</i> is the number of the auditor's comments.</p> <p><i>C2</i> is the overall compliance index that is calculated as the sum of the 15 dichotomous variables that refer to the municipalities' compliance with accounting practices (see Table 3).</p> <p><i>LDCap</i> is calculated by dividing the long-term debt of the municipality by the number of the municipality inhabitants.</p> <p><i>OR/TR</i> is calculated by dividing municipality operating revenues by the total municipality operating revenues including central government subsidies</p> <p><i>Psqk</i> is calculated by dividing municipality population by its size in square kilometers.</p> <p><i>Auditor</i> is a dummy variable taking the value of 1 if the Auditor is SOL and 0 if not.</p> <p><i>Mayor</i> is a dummy variable taking the value of 1 if the Mayor is supported by the ruling government party and 0 if not</p> <p><i>LE</i> is a dummy variable taking the value of 1 if a municipality has issued accounting statements based on the accrual concept in previous operating periods and 0 when year 2003 was its first issuance year.</p>		

Table 4: OLS regression results

## Discussion

The present research study focused on the outcome of the accounting reform that took place in Greek municipalities. More specifically, we examined the quality of end-of-the-year statements issued by these entities for the fiscal year 2003. Moreover, we tested whether a number of factors previously cited in the relevant literature influence municipalities' compliance with accounting standards. Our results indicate that the majority of municipalities under review have not succeeded in providing high-quality data to their stakeholders at the first years of accrual system adoption. This finding has implications regarding the success of the accounting reform since the main objective was to provide the municipalities' stakeholders with high-quality accounting information; this however does not seem to have been entirely accomplished. Therefore, it is rational to assume that the other expected benefits from the reform such as the improvement of accountability, which depends on the enhancement of accounting information have not been achieved, at least to the desired extent, either.

As regards the factors that affect municipalities' compliance with accounting standards, this study demonstrated a relationship with the auditor size, as well as with the municipality size, wealth, and previous experience in issuing accrual accounting end-of-the-year statements. In particular, the auditor size was found to be positively related to compliance, while municipal size, wealth and experience with accruals accounting exhibited a negative relationship. Larger municipalities probably experience bureaucratic problems that inhibit the reform process and therefore the financial reports produced are of low informative quality. Wealthier municipalities could have approached the implementation issue rather superficially since they do not heavily depend on state financing and are therefore less inclined to satisfy the central government which is the main source of financing for the less affluent local governments. Moreover, even though the negative relationship concerning the accrual accounting experience rejects our initial hypothesis, it is worth mentioning that the results presented in Christiaens and Van Peteghem (2007) show that compliance fluctuates through time. The two other variables we tested (namely: dependence on debt financing and mayor support by the central government) were not found to be statistically associated with compliance.

Finally, it is worth mentioning that even though the central government has established fines in the event that a municipality fails to adhere to the accounting standards set out by PD 315/99, no such action has been taken yet. This situation could also be another reason why municipalities have failed to fully adhere to accounting standards as exhibited in our statistical results. As Berry and Jacobs (1981) comments, the absence of an enforcement system is a leading reason of non-compliance.

## Conclusions

This study contributes to the literature of accrual accounting reforms in public sector organizations through the examination of the quality of the accrual accounting end-of-the-year financial statements. It has been argued throughout the study that these reforms can be considered successful in delivering high quality information to decision makers only when the issuing organizations comply with accounting standards. In the case of Greek municipalities the adoption of accrual accounting in the early stages of its implementation cannot easily be characterized as entirely successful due to the

inability or the unwillingness of municipalities to fully adhere to the new accounting standards. Furthermore, our results indicate that compliance is affected by the external auditor size, as well as by the municipality size, wealth and experience in accrual accounting. A follow up study conducted on the municipalities of our sample could provide a useful perspective concerning the over-the-time effect of the variables that are expected to influence compliance, as well as the long-term evolvement of the informative quality of municipalities' financial reporting. In addition to that, it would be interesting to further research on the way stakeholders' and management's perceived usefulness of accrual accounting financial reports influences Greek municipalities' adherence to accounting standards.

## Endnotes

1 The audit reports conclude by stating that: "taking into consideration our aforementioned remarks we believe that the present financial statements represent the true and fair financial position of the municipality". This same wording, accordingly adjusted, is customarily used to express an unqualified opinion in the private sector as well.

2 It is a customary practice in Greece for auditors to make remarks in their audit reports in accordance with the Hellenic Auditing Standards and Professional Ethics (The Institute of Certified Auditors in Greece, 1999, p. 180).

3 The Greek audit market can be split into three categories of audit firms: the big-4, second tier international audit firms and local audit firms. The Big -4 have shown very little interest in entering the market of municipal audits. Thus municipalities' audits have been undertaken by either SOL S.A. which is a very large local audit firm or by smaller, compared to SOL, second tier international audit firms.

4 We refer to a negative relationship since in the compliance index C2 a municipality is considered to be fully compliant with accounting standards when it takes a mark of 15 and to be totally non-compliant when it takes a mark of 0.

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## ARE ONLINE PAYMENT SYSTEMS CUSTOMER-CENTRIC? A STUDY ON INDIAN PUBLIC SECTOR BANKS

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### Abstract

The paper has tried to identify the features which are affecting the experience of customers of Indian PSBs regarding payment systems of online banking. It has also studied the recent growth rate of payment systems of online banking and finally suggested the steps to be taken to overcome the loophole identified by customers and to make the payment system more customer-centric. The research work is based on both primary data and secondary data. To study the growth rate of online payment systems in the Indian PSBs secondary data has been gathered specially from the official site of Reserve Bank of India. Also samples has been collected from customers of Indian PSBs who are frequent users online banking and online payment systems. Data gathered has been analysed using univariate and bivariate analysis. It has been found banking payment systems are making a shift towards paperless system from paper based systems. Customers of Indian PSBs are experiencing very negligible incidents of fraudulent transactions nowadays. Sustenance of network connection and standardization of online product and online payment procedures are the crux to make it more customer-centric. Electronic payment systems available online is only taken care of. ATM, offline card based payments are kept outside scope of the study. The research work brings out that Indian PSBs should move more towards online payment systems with an improvement in their network connection and through delivery of more standardized products along with their procedures through all PSBs. The work will have a significant impact on the online banking operations of Indian PSBs from the quantitative analysis of the present customers' attitude towards banking.

**Keywords:** online banking, Customer experience, Indian public sector banks

### Introduction

Retail banking industry is totally service driven and their existence in the hyper-competitive environment depends largely on the quality of service provided by them. Continuous process improvement has become the essential condition for survival of the organizations. It has been found that for sustaining the high growth, there has to be significant emphasis on raising the productivity levels, for which innovations and adoption of technology would be critical. Applying technology banks have innovated new delivery channels like internet banking which is considered as a major breakthrough in the history of banking.



In addition to the branch network, most retail banks now operate a range of direct distribution channels. Commonly employed direct channels include: call centers, web banking, mobile banking, and ATMs. While the branch provides the comfort of face to-face interaction, direct channels provide customers with convenient remote services. Successfully managing a variety of distribution channels has become an essential strategic requirement for retail banks. To realize performance improvements banks must enhance and optimize their distribution channels.

A payments system comprises of a set of rules, institutions, and technology for transfer of funds from one entity to another. It constitutes the core of a well-functioning financial system as the failure of a payment system may result in a systemic risk thereby triggering bank runs. A well-functioning payment system is a prerequisite for proper conduct of monetary policy, efficient delivery of financial services, and minimising transaction costs.

The Reserve Bank of India has initiated certain measures for improving the payment and settlement system. These measures include introduction of Electronic Funds Transfer (EFT), Real Time Gross Settlement System (RTGS), Centralised Funds Management System (CFMS), the Negotiated Dealing System (NDS) and Structured Financial Messaging Solution (SFMS). The EFT scheme enables transfer of funds within and across cities and between branches of a bank and across banks. The RTGS provides for continuous (i.e. in real time) processing and settlement of funds transfers.

The online payment process as followed in India can be summarised as:

- The remitter fills in the application form giving the particulars of the beneficiary (city, bank, branch, beneficiary's name, account type and account number) and authorises the branch to remit a specified amount to the beneficiary by raising a debit to the remitter's account.
- The remitting branch prepares a schedule and sends the duplicate of the application form to its service branch for data preparation. If the branch is equipped with a computer system, data preparation can be done at the branch level in the specified format.
- The Service branch prepares the data file by using a software package supplied by RBI and transmits the same to the local RBI (National Clearing Cell) to be included for the settlement.
- The RBI at the remitting center consolidates the files received from all banks, sorts the transactions city-wise and prepares vouchers for debiting the remitting banks on Day-1 itself. City-wise files are transmitted to the RBI offices at the respective destination centers.
- RBI at the destination centre receives the files from the originating centers, consolidates them and sorts them bank-wise. Thereafter, bank-wise remittance data files are transmitted to banks on Day 1 itself. Bank-wise vouchers are prepared for crediting the receiving banks' accounts the same day or next day.
- On Day 1/2 morning the receiving banks at the destination centres process the remittance files transmitted by RBI and forward credit reports to the destination branches for crediting the beneficiaries' accounts.

Therefore the “players” that may be involved in a funds transfer transaction include:

- Originator, e.g., individual, business entity - the initiator of a funds transfer;
- Beneficiary - the ultimate party to be credited or paid as a result of a funds transfer;
- Originator’s Financial Institution - the financial institution receiving the transfer instructions from the originator and transmitting the instructions to the next party in the funds transfer;
- Beneficiary’s Financial Institution - the financial institution that is to credit or pay the beneficiary party; and
- Additional Financial Institutions - other institutions that may be required to effect the transaction.

## Research Objectives

In this paper we have tried to find out the online payment systems available with the Indian Public Sector banks, how electronic payment systems are getting their way into the banking payment system, to what extent these online payment systems are providing ease of operation to its customers and whether the online payment systems are fast and secured way of banking transaction. The paper has tried to capture the customers experience with various parameters on online payment system available with Indian PSBs and how they are affecting their overall satisfaction level with online payment system. From this analysis the paper has tried to draw an inference that whether the system of online payment can be called customer centric or not.

On the basis of the above discussion the objectives of this study can be stated as:

- To investigate the payment systems available online with the Indian Public Sector banks along with their growth rate in usage (volumewise and valuemewise)
- To evaluate the customers’ current experience about various payment system available online.
- The parameters which are affecting overall experience level of the customers of the online payment systems provided by the Indian PSBs

Finally it is comes up with the measures that should be taken to make the online payment system more customer-centric.

## Scope of the Study

By the term online banking, the banking transaction using only banking website has been taken into consideration. Clearly the electronic banking though ATM or mobile banking has been kept outside of this study. The paper wishes to bring out the pros and cons of the online banking through the customers’ real time experience. It fetches data regarding the technicalities involved while transacting. The design and the content of the website, experience of navigation from one page to another page, easiness to follow the instruction while transacting, accuracy and security are some of the aspects which have been brought under focus of this research.

On the other hand data regarding the growth of online payments (volumewise and valuwewise) has been gathered to show the acceptability of these online payment methods. Finally a comparison has been done to be sure whether these efforts are being made keeping in mind the customer perspective or not.

## Literature Review

The financial sector is metamorphosing under the impact of competitive, regulatory and technological forces (Jeevan, 2000). The famous quote by Bill Gates that banking is vital to a healthy economy, but banks themselves are not (Serwer 1995; Jeevan 2000; Varma 2001) highlights the crucial nature of the electronic forces that are affecting banks more than any other financial service provider group.

Notably, the service quality of commercial banks tends to play a dominant role in high involvement industries (Anger et al., 1999 and Elango and Gudep, 2006). Leading scholars strongly maintain that providing quality service is not only the most important factor for customer satisfaction but also the principal criterion that measures the competitiveness of a service organisation like commercial banks (Berry et al., 1994; Schneider and Bower, 1995; Lengnick Hall, 1996). Indeed providing the best service quality is viewed as the pre requisite for the success of service organizations like banks (Albert and Pitt, 1997; Roger 2002). The organizational performance of commercial banks is significantly and positively linked with the internal service quality (Krishnaveni and Divya 2006 and Vanniarajan, 2007). And to provide both internal and external service quality in commercial banks, the total quality service is highly essential (Kassem, 1998; Yavas et al., 1997).

Henning Hansen in his article "Cultivating a Customer-Focused Corporate Culture" published in the e-journal CRM Buyer has emphasized few like - building business around customers, involvement of the employees towards this goal, rebuilding of the business process, business metrics etc.

According to Strategic Marketing ventures Ltd. Innovations in the process, hitting the target customers through market research, focussing on what customers care about, being on the right place and at the right time are some of the basic building blocks of customer focussedness.

According to an article "Positive Customer Focussed Attitude of the Customer Service Person" by K. Tammemagi, a Customer Service Trainer in Ireland, characteristics of customer focussed attitude are reacting to customer feedback and driving improvements, seeing disappointed customers as a positive challenge to demonstrate the high quality of their skills, learning from experience, continuously seeking to do better.

Cardozo (1965) was one of the first marketing academics to investigate customer satisfaction. Cardozo speculated that dissonance would prevail in purchases of high involvement and substantial expanded effort. This meant if customer had invested themselves in a product or service (either through their involvement with the product or by expanding considerable effort to buy it or by paying a substantial price) they would actively work to reduce any difference in their actual

experience with a product or service and their prior expectations. This suggests generally more favourable outcome for the manufacturer, since the customer would conceivably increase his/her evaluation of experience or decrease his/her expectation (after the fact) to reduce the experienced dissonance between high expectations and low experience.

Shapiro (2000) studied the effects of cyber space as evolving in ways that threaten privacy and other constitutional rights. It is eroding the liberty. It may end up controlling our lives in ways we have never imagined.

Ashish K. Sen (2001) pointed out that new Private Sector Banks (NPSBs) have done significant technological up-gradation, thus getting ahead in competition primarily in customer service, a concept that was almost forgotten by the giant Public Sector Banking System, which enjoyed monopoly in the banking industry of the country. The concept of 'Anywhere Banking' makes a person a customer of the whole bank and not merely of a particular branch, facilitating instantaneous online remittance of funds, collection of instruments and enabling him to literally carry his account along, wherever he goes across the country. He also observes that the Public Sector Banks (PSBs) are putting their acts together – reorganising and restructuring themselves – all with an eye on customer service and customer convenience and competition is indeed the key.

Gerstner (2003) carried out extensive re-engineering for the technology giant IBM. Most of the work centres on eleven areas. The first six, called the Core Initiatives, meaning those parts of the business, which dealt more with the outside world: hardware development, software development, fulfillment, integrated supply chain, customer relationship management and services. The rest focused on internal processes, called enabling initiatives: human resources, procurement, finance, real estate and information technology.

Chalam, G.V. (2002) has studied the growth and trend of IT application in banking sector and made an assessment of its impact on banks' performance. According to him the major cause of customer dissatisfaction may lie in too much observance of rules and procedures, delayed and ineffective services, complicated documents and cumbersome procedures, etc..

The first blue print of computerisation and mechanisation in the banking institution was drawn up in 1983-84 in the aegis of a committee under the chairmanship of Rangarajan. The committee analysed the prevailing banking scenario and identified the areas and functions where mechanisation would be essential. Hence, the entry of Automatic Ledger Posting Machines (ALPMs) and introduction of MICR/OCR Technology for cheque processing took place.

Landmark in the history of technological development in the banking industry was the appointment of a committee under the Chairmanship of Saraf on technological issues relating to the payment system, cheque clearing and security settlement. The major recommendations of the Saraf committee were:

- Setting up of Electronic Fund Transfer system (EFT)

- Introduction of Delivery vis-à-vis Payment system (DVP) in SGL transactions through NICNET
- Extension of MICR clearing to non-metropolitan centers
- Extensive use of RBINET to overcome certain limitations of BANKNET infrastructure
- Promote Credit Card culture in public

The important events in the evolution of new age payment systems in India postindependence are:

- The nationalisation of banks in two batches in 1969 and 1975 has brought many areas under the clearing process managed by Reserve Bank of India (RBI) or State Bank of India or one of the leading nationalised banks in the locality, providing a basis for cheque clearing in India on a much larger scale and brought several locations into the systemic clearing and settlement process
- Implementation of Magnetic Ink Character Reader (MICR)-based cheque clearing in Mumbai in 1986, in Chennai and Delhi in 1987 and in Calcutta in 1989;
- the arrival of card-based payments (debit card, credit card) in the late 1980s and early 1990s;
- introduction of the Electronic Clearing Service (ECS) in the late 1990s;
- introduction of Electronic Funds Transfer/Special EFT (EFT/SEFT) in the early 2000s;
- introduction of Real Time Gross Settlement (RTGS) in March 2004;
- introduction of National EFT (NEFT) as a replacement for EFT/SEFT in 2005/2006;
- implementation of the cheque truncation system in 2008 as a pilot in New Delhi.

The term “Electronic Payment System” covers to a variety of payment mechanisms. Furthermore this domain is a constant state of flux, with new schemes emerging and existing scheme being modified often substantially. The principle of classification of EPS is based on the form of money representation and principle of money transfer. Existing payment systems can be divided into two groups: electronic cash mechanism (or electronic currency) and credit-debit system (Medvinsky & Neuman 1993).

A terminological approach offered by Wayner(1997) based on the type of information that is exchanged, distinguishes between account based and token based system which respectively corresponds to debit credit systems and electronic cash in the definition of Medvinsky and Neuman.

A classification of online payment systems is offered in Asokan et al. (1997) where payment mechanisms are classified based on temporal sequence of money flows between the payer and the receiver of the payments. Various attempts of classification of the payment systems are also reported in Kuttner and McAdnrews (2001), (Goldfinger 1999), Abrazhevich (2001) and Schreft (2002).

Finally another classification is proposed by Piloura (1998) based on a survey on electronic payment systems on open computer networks.

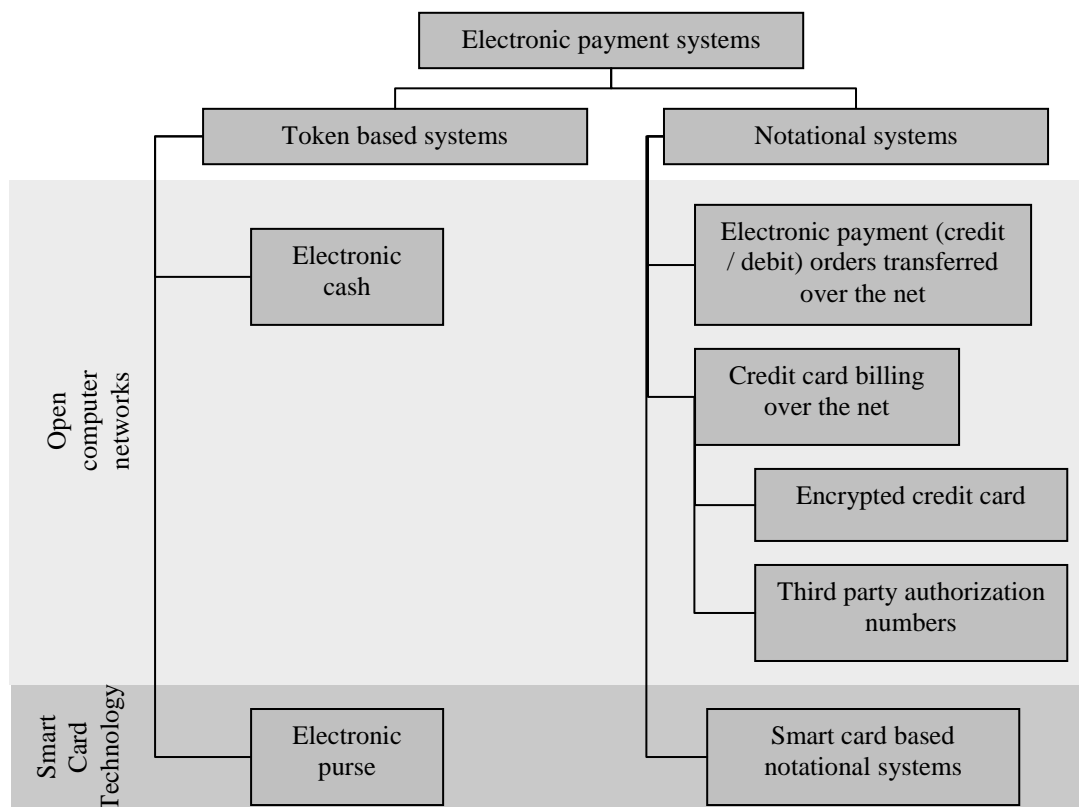


Figure 1: The classification Schema (Adopted by Piloura (1998))

## Reserch Methodology

This research paper relies a lot on the secondary data sources in the areas like gathering over the years data regarding the growth of the i-banking payments systems.

In order to fulfill the first objective of this research work, i.e., to investigate the payment systems available online with the Indian Public Sector banks along with their growth rate in usage (volumewise and valuwewise) data has been gathered from the secondary sources especially from the official site of Reserve Bank of India. Information about the developments in the payment and settlement systems in terms of value and volume has been taken from the various annual reports of RBI. Mainly data from financial year 2005-06 till 2009-2010 has been captured and compared for this purpose.

To study the customers' current experience about various payment system available online primary data source has been used. Questionnaire has been formed to collect information about customer's experience on the usage of various payment and settlement systems available online.

There were twenty questions under the heading of Customers' experience from the usage of online payment channel and three questions relating to the demography of the customers.

Online payment systems in the Indian PSBs have two clear aspects. One is the design of the website, use of standardized online forms which provides the ease of operation to the customers and the second is technical aspect which deals with the speed to access, network connection, security of the payment channel which makes a online payment system robust.

Issues like how fast the banks' website loads on the machine, organization of the website, suite of services the bank is providing through its online channel, time to navigate from one page to another in the website, time taken to fill online forms, incidents of link failure while transacting and filling up online forms, incidents of fraudulent online transactions, security aspects of online payment channels like debit/ credit cards, EFT, RTGS etc. and standardization of the process and products of the online banking system has been taken into consideration.

Five point Likert-type Scales have been used, consisting of a number of statements which express either a favourable or unfavourable attitude towards the given object to which the respondent is asked to react. The respondent indicated his agreement or disagreement with each statement in the instrument. Each response is given a numerical score, indicating its favourableness or unfavourableness, and the scores are totaled to measure the respondent's attitude. In other words, the overall score represents the respondent's position on the continuum of favourableness-unfavourableness towards an issue.

Customers of Indian Public Sector banks who have experience with payment and settlement channels of banking form the population here. The banks which have a high rating in the usage of electronic payment systems (volume and value of transaction wise) were chosen for this study. Here again the RBI data has been relied upon which shows the State Bank of India, Bank of Baroda, Union Bank of India are some of the Public sector banks which uses online payment to a large extent as compared to other nationalized banks. So, the customers, using the online banking services of these three selected public banks forms the sample of this study. Responses has been gathered from all over India especially from the metro cities like Delhi, Mumbai and Kolkata. Users of the online banking from other urban and semi urban areas have also been taken into the sample. A total of 215 customers were given the questionnaires out of which 209 were usable the average response rate being 97.2%.

One of the prime objectives of this research study was to take direct feedback from the customers through these questionnaires. The customers were selected at random by the interviewer on the basis of judgmental method because the researcher (who is also the interviewer in this study) felt they have more useful information related to the study. This sort of practice is well accepted in accounts and auditing process and as per the Auditing Practices Board "judgmental sampling is an accepted method of selection provided the auditors are satisfied that the sample is not unrepresentative of the entire population" (APB, 1993)

To fulfill the third objective of this paper, results of the growth rate of online payment system has been matched against the data regarding customer experience of online payment systems to come to the conclusion that these online payment process bearing focus towards customer expectation or not.

Managerial implications has been drawn to show the paths open towards to Indian PSBs to further improve the acceptability scenario of online payment system within their target customers making this a success story in the Indian context.

## Data Analysis and Research Findings

### Evolution in payment and settlement systems: an service provider's perspective

Analyzing the secondary data on the performance of various payment systems used in the Indian PSBs it has been found that the total turnover under various payment and settlement systems rose by 13.9 per cent in terms of value during 2008-09 as compared with 41.8 per cent during 2007-08. As a ratio to GDP, the annual turnover in terms of value increased marginally from 12.7 per cent in 2007-08 to 12.9 per cent in 2008-09. The Systemically Important Payment System's (SIPS) share in the total turnover accounted for 53.8 per cent.

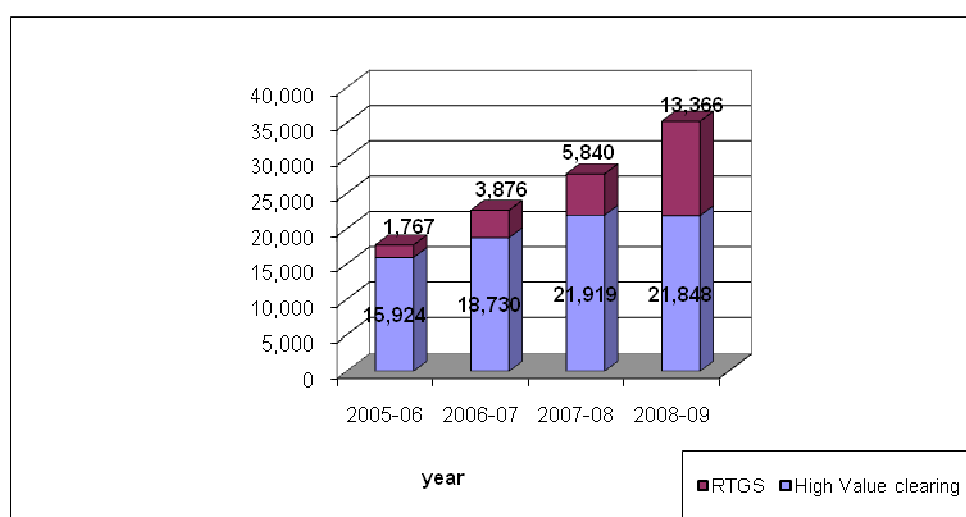


Figure 2: Systemically Important Payment Systems (SIPS): in terms of volume of transactions

The SIPS continued to exhibit the rising trend and there was an increase of 12.2 per cent in terms of value in 2008-09 on top of the increase of 39.6 per cent in the previous year.

Electronic fund transfer systems comprising electronic clearing service (ECS), electronic funds transfer (EFT) and national electronic funds transfer (NEFT) showed a decline of 57.1 per cent in value during 2008-09 as compared to a rise of over 422.0 per cent during 2007-08. This sharp growth in 2007-08 was due to the transactions relating to refund of oversubscription amount relating to IPOs floated by companies through ECS Credit and NEFT. The ECS Debit and EFT/NEFT showed a growth of 36.9 per cent and 79.6 per cent, respectively, in terms of value.



Item	Volume (000s)				Value (Rupees crore)			
	2005-06	2006-07	2007-08	2008-09	2005-06	2006-07	2007-08	2008-09
ECS / NECS Credit	44,216	69,019	78,365	88,394	32,324	83,273	7,82,222	97,487
	(10.4)	(56.1)	(13.5)	(12.80)	(60.2)	(157.6)	(839.3)	(-87.5)
ECS Debit	35,958	75,202	1,27,120	1,60,055	12,986	25,441	48,937	66,976
	(135.0)	(109.1)	(69.0)	(25.9)	(344.6)	(95.9)	(92.4)	(36.9)
EFT/NEFT	3,067	4,776	13,315	32,161	61,288	77,446	1,40,326	2,51,956
	(20.3)	(55.7)	(178.8)	(141.5)	(12.2)	(26.4)	(81.2)	(79.6)

Note: 1. Figures in parentheses represent percentage change over previous year.

Table 1: Retail Electronic Funds Transfer Systems: in terms of volume of transactions

Banks have been advised to encourage their customers to use NEFT which is a nation-wide electronic fund transfer system. As at the end of March 2009, 55,225 branches of 89 banks were participating in NEFT.

The use of card based payments rose by 22.3 per cent in volume and by 19.0 per cent in value during 2008-09. One notable trend in the context of economic slowdown was that while the growth in value of credit card transactions decelerated in 2008-09, the growth in the value of debit card transactions continued to remain strong as in the previous year

Item	Volume (000s)				Value (Rupees crore)			
	2005-06	2006-07	2007-08	2008-09	2005-06	2006-07	2007-08	2008-09
Credit Cards	156,086	169,536	228,203	259,561	33,886	41,361	57,985	65,356
	(20.6)	(8.6)	(34.6)	(13.7)	(31.9)	(22.1)	(40.2)	(12.7)
Debit Cards	45,686	60,177	88,306	127,654	5,897	8,172	12,521	18,547
	(10.0)	(31.7)	(46.7)	(44.6)	(10.0)	(38.6)	(53.2)	(48.1)

Note: Figures in parentheses represent percentage change over previous year.

Table 2: Card-Based Payment Transactions: in terms of volume and value of transactions

The number of RTGS enabled bank branches stood at 55,006 as on March 31, 2009 with the addition of 11,494 branches to the RTGS network during the year 2008-09. The increased network coverage is reflected in the increase in the volume and value settled in RTGS. RTGS peak volume and value in a day were 1, 28,295 transactions and Rs.2, 73,450 crore, respectively, on March 30, 2009.

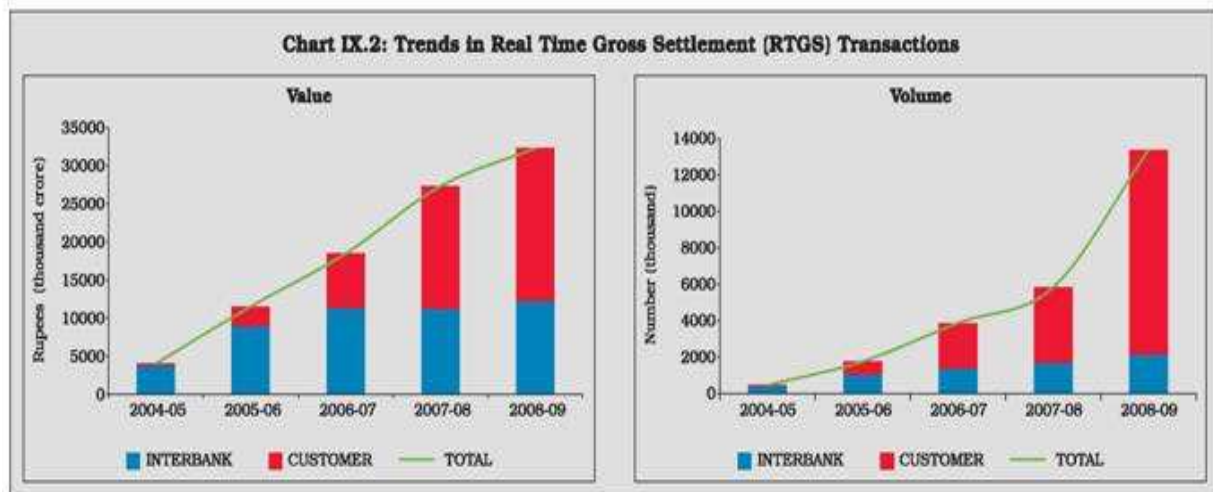


Figure 3: Trends in RTGS Transactions

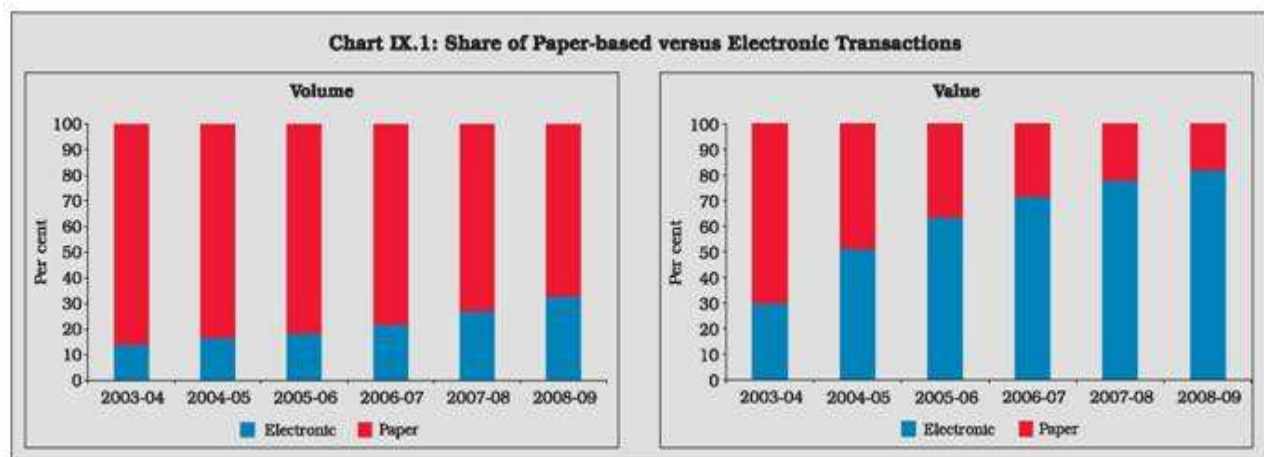


Figure 4: Share of paper-based versus electronic transactions

#### Analysis on customers' experience with online payment systems in PSBs: Customer perspective

The data gathered on customers' real time experience of payment systems available in online banking has been analysed using univariate and bivariate analysis.

SPSS ver 17.0 has been used to do the analysis on the data. The variables are identified from the questionnaire and the values against each answer of the questions are recorded against each variable.

The table 3 given below shows the variables and their description on which data has been collected and analyzed.

Variable name	Description
V <sub>1</sub>	How do you came to know about the online payment systems of your bank
V <sub>2</sub>	Your bank is successful in generating awareness about its online payment facilities
V <sub>3</sub>	The webpage for online payment loads quickly on your computer
V <sub>4</sub>	The website is well organized / options are easy to understand
V <sub>5</sub>	The website is providing various utilities of electronic payments
V <sub>6</sub>	It takes time to navigate from one page to the next
V <sub>7</sub>	It takes time to fill information (about beneficiary a/c etc depending on the amount of validation checks)
V <sub>8</sub>	Link fails while filling up the EPS forms
V <sub>9</sub>	Which of the following modes of EPS you have used in your electronic banking?
V <sub>10</sub>	How often have you encountered an incident of link failure while transacting?
V <sub>11</sub>	How often have you contacted bank branch for an incident of link failure and disbursement of fund (without completion of transaction)?
V <sub>12</sub>	Have you ever encountered a fraudulent e-banking transaction(s)?
V <sub>13</sub>	What was the mode of payment while you encountered fraudulent transaction(s)?
V <sub>14</sub>	How was your overall experience while making payment through debit / credit card ?
V <sub>15</sub>	How was your overall experience while making payment through EFT ?
V <sub>16</sub>	How was your overall experience while making payment through RTGS ?
V <sub>17</sub>	Your personal information has been compromised using electronic payment?
V <sub>18</sub>	Online Payment facilities should be standardized (all banks website should provide the same suit of facilities
V <sub>19</sub>	Same standardized form options should be followed in all banks

Table 3: Name and description of the variables used in SPSS ver 17.0

## Univariate analysis

The results of the answer to the questions on customer's experience from banking of public sector banks are shown in the bar chart below:

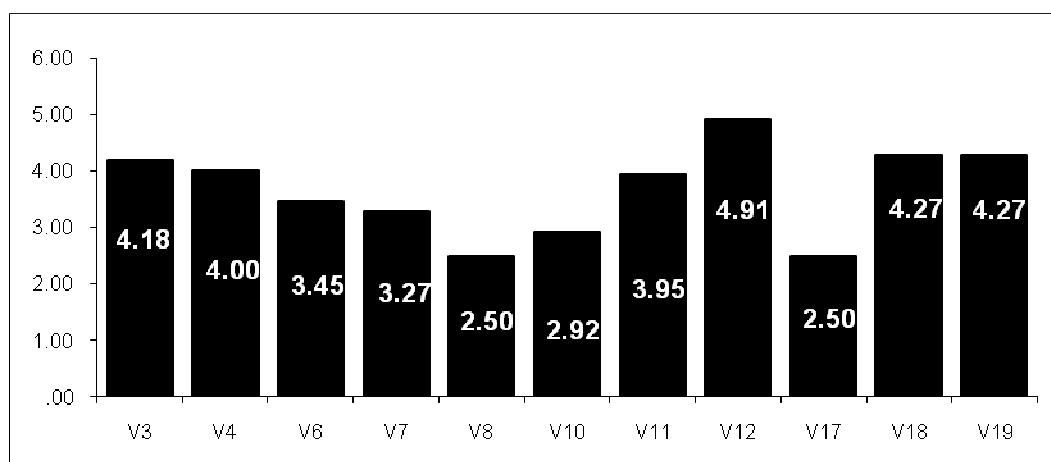


Figure 5: Mean values of customer's experience on various aspects of online banking

From the mean value analysis it can be seen that the variable which is having highest mean value is V12 (4.91) which brings out the fact that the customers of online payment systems are confronting with very less number of fraudulent transactions ; 90% of the customers have told that they have never encountered a fraudulent transaction whereas about 9% have encountered it sometimes only.

Each of the variables V18 and V19 are having mean values 4.27 which clearly shows the demand for standardize suite of products for online payments and also standardization of forms etc. for making online payments.

Variable V3 and V4 having mean values 4.18 and 4.00 respectively tells us customers are having good experiences regarding the aspects like quickness of loading of the banks' homepage, organization of online payment sites.

Variable V11 is having mean value of 3.95, from this it can be said that customers are sometimes facing cases of disbursement of funds without completion of an online transaction but not very often.

Variables V6 and V7 are having mean values 3.45 and 3.27 respectively which refers that customers are having average experience regarding navigating from one page to another in the banking website or time taken to fill up the online forms.

Variable V10 and V8 are having a mean value of 2.92 and 2.50 respectively which refers that customers are experiencing link failure during transaction and during filling up the online forms but not very often. Incidents of link failure happen mostly while filling up the application forms.

Mean value of variable V17 brings out the fact that customers are experiencing incidents where there personal information is being compromised often if not quite often.

### **Bivariate analysis- Regression**

Regression describes the relationship between a dependent and independent variable in the scale values of the variables. It does so by expressing Y scores as a straight line (linear) function of X scores.

Here three dependent variables have been identified namely, overall experience while making payment through debit / credit card, overall experience while making payment through EFT and overall experience while making payment through RTGS. How each of these overall experiences of the three payment channels is being affected by the technicalities associated with them has been analyzed through the regression analysis.

V14 (overall experience while making payment through debit / credit card) has been kept as dependent variable. How the components like quickness of loading the website (V3), organization of the website (V4), time to navigate from one page to the next (V6), time to fill information (V7), incident of link failure while filling up the EPS forms (V8), incident of link failure while transacting (V10), V11 (frequency of contact bank branch for an incident of link failure and disbursement of fund (without completion of transaction) V12 (Have you ever encountered a fraudulent e-banking transaction )as independent variable.

Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 (Constant)	3.680	.637		5.775	.000	2.422	4.939
V3	-.250	.219	-.166	-1.141	.256	-.682	.182
V4	-.155	.099	-.104	-1.572	.118	-.351	.040
V6	.005	.104	.011	.046	.963	-.201	.210
V7	-.001	.097	-.001	-.006	.995	-.191	.190
V8	-.380	.038	-.770	-9.871	.000	-.456	-.304
V10	.031	.025	.067	1.262	.209	-.018	.080
V11	.015	.030	.026	.497	.620	-.044	.074
V12	.632	.144	.422	4.389	.000	.348	.917

a. Dependent Variable: V14

From the coefficient matrix the regression equation can be written as follows:

$$V14 = 3.680 - 0.250 \cdot V3 - 0.155 \cdot V4 + 0.005 \cdot V6 - 0.001 \cdot V7 - 0.380 \cdot V8 + 0.031 \cdot V10 + 0.015 \cdot V11 + 0.632 \cdot V12.$$

From the beta coefficient we can know how strongly the independent variable associated with the dependent variable is. It is equal to the correlation coefficient between the two variables.

From the t statistics it can be seen variables V6, V7, V8, V11 and V12 are useful predictors of the independent variable V14 as the t values well below -2 or above +2 for these variables. Among these variables V14 is most influenced by V12 as it is having a beta factor of .632 which is highest in the regression function and the relationship is positive. V14 has a negative correlation with V8 and the intensity of the relation is moderate to low (0.038)

This table displays R, R squared, adjusted R squared, and the standard error. The value of R, .794 is the correlation between the observed and predicted values of the dependent variable V14. The sign of R indicates that the variables have a positive relationship between them. The absolute value of R (.794) indicates a strong relationship between the observed and predicted value. Value of R squared (0.630) indicate the model does fits the population moderately.

Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.794 <sup>a</sup>	.630	.612	.295

a. Predictors: (Constant), V12, V6, V11, V10, V8, V3, V4, V7

Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.794 <sup>a</sup>	.630	.612	.295

a. Predictors: (Constant), V12, V6, V11, V10, V8, V3, V4, V7

b. Dependent Variable: V14

V15 as dependent variable and V3, V4, V6, V7, V8, V10, V11, V12 as independent variable:

Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 (Constant)	2.327	.458		5.080	.000	1.423	3.230
V3	.345	.104	.282	3.306	.001	.139	.551
V4	-.037	.089	-.033	-.411	.682	-.212	.139
V6	-.275	.051	-.625	-5.351	.000	-.376	-.174
V7	.250	.053	.567	4.669	.000	.144	.355
V8	-.317	.032	-.597	-9.840	.000	-.381	-.254
V10	.037	.022	.078	1.664	.098	-.007	.081
V11	.009	.027	.016	.349	.727	-.044	.063
V12	.318	.101	.195	3.154	.002	.119	.517

a. Dependent Variable: V15

From the coefficient matrix the regression equation can be written as follows:

$$V15 = 2.327 - 0.345 \cdot V3 - 0.037 \cdot V4 - 0.275 \cdot V6 + 0.250 \cdot V7 - 0.317 \cdot V8 + 0.037 \cdot V10 + 0.009 \cdot V11 + 0.318 \cdot V12.$$

From the t statistics it can be seen variables V3, V4, V6, V7, V8, and V12 are useful predictors of the independent variable V15. V15 is most influenced by V3, having a beta factor of 0.345 which shows a moderately low level of positive correlation. Next comes variables V12, V8, V6, V7, V4 respectively all influencing the variable V15 with moderate to low intensity (correlation coefficients being 0.318, -0.317, -0.275, 0.250, -0.037 respectively)

## Discussions and Conclusions

It has been found from the secondary data analysis that there is a positive trend towards online payment systems.

- Total turnover under various payment and settlement systems rose by 28% in terms of value 2008-09 as compared to the previous year.
- The proportion of Real Time Gross Settlement (RTGS) transactions increased in 2008-09 and high value clearing component of SIPS declined by 17.3 per cent during the year. This decline in high value SIPS clearing could be due to shift from paper based transactions to electronic modes of payments like RTGS, besides the impact of the general slowdown in the economy on the value and volume of such transactions.
- Electronic fund transfer systems showed rise of over 422.0 per cent during 2007-08. To encourage the retail electronic payment systems various measures were initiated by the Reserve Bank, viz., (i) facilitating initiation of NEFT transactions by accepting cash from walk-in customers (from the earlier account to account transfer), (ii) option to make credit card payments, (iii) extending the settlement time window for NEFT by one and half hours. Reflecting these, there has been substantial increase in both the volume and amount of transactions in retail electronic fund transfer systems during 2008-09
- The trends in the volume and value of paper clearing versus electronic clearing over the recent years show that while in value terms the share of electronic transactions has increased significantly, in volume terms paper based transactions still dominate.

The following points can be concluded from the primary data analysis :

- From the mean value analysis customers of Indian PSBs are experience less cases of fraudulent transaction. The customers are looking for standardized banking service through online across all the PSBs and they also want to have standardization in regard of the procedures of online banking. Analysis on their real time experience shows their experience was good to excellent in terms of the speed of accessing the banking website, organization of the website. Experience of navigation from one page to another in the website, amount of time it's taking to fill the information for online banking and incidence of disbursement of fund without completion of transaction scored average to good.

While on the other hand customers are experiencing link failure while filling up the EPS forms and making payments often and they are also facing incidents where their personal details are being compromised.

- From the regression function it can be deduced that features like time to navigate from one page to the next, amount of time it takes time to fill information online, link failure while filling up the EPS forms, disbursement of fund without completion of transaction, incident of fraudulent transaction creates impact on overall experience while making payment through debit / credit card.

Similarly how fast the website of online payment loads on a computer becomes one of the prime features apart from the previously declared features while finding the impact on overall experience while making payment through EFT.

Going through the points it comes out clearly that from paper based payment systems is shifting towards paperless payment systems. Customers of Indian Public sector banks are welcoming this transition also. The most positive thing that this paper brings out is customers are facing negligible incidents of fraudulent transaction, which will help to break the negative notion of online banking that was prevalent even few year before also if not even now . Their experience regarding many of the technical aspects like the organization of the website, quickness of loading the homepage of the website or time to navigate from one page to another was quite good.

It can be also concluded from the points discussed here that link failure is the area that should be taken care of to improve the performance of the online banking and make it more customer centric. Also standardization is the needed in terms of the online products in offer by various banks and also inters of procedure to fill up various forms. It has been found that most of the incidents of link failure is happening at the time of filling up the form, so the suggestion here is to make the form filling procedure more simplified and standardized so that the customers can feel comfortable in handling any of the PSB's online form and less incidents of link failure occur in between.

## Biography

**Prof. Datta**, a Mechanical Engineer graduated from Jadavpur University, with a place in their Roll of Honour, before going on to take his Post Graduate degree in Management from Indian Institute of Management Calcutta. Prof. Datta has done his Ph.D. in Management from the University of Burdwan. He has a rich industrial experience of more than 25 years particularly in the area of marketing and execution of pollution control projects, having worked for the blue-chip multinationals and Indian companies like Gibbs & Hills. Inc., ACC-Vikers-Babcock Ltd., Flakt India Ltd., GEC of India Ltd. and Orient Paper & Industries. He has been actively involved in teaching, consultancy and research in the area of Marketing & Strategic Management for last thirteen years. His present area of research interest includes Consumer Behavior, Business Process Reengineering, Knowledge Management, Leadership, etc. Prof. Datta has also authored books titled "Marketing Sense", "Marketing Management" & "Strategic Management"(in print) as well as developed CDs on "Marketing Management" and "CRM" for eLearning programme.

**Sukanya**, after graduating in economics from the University of Calcutta did her post graduation in computer application conducted by CMC Limited, a subsidiary of Tata Consultancy Services Limited (TCS Ltd ) and worked at RS Software (India) Ltd. as a software engineer for 5 years. She has done her post graduate diploma in business management (specializing in systems and marketing) from the Institute of Management Technology, Ghaziabad. For about six years, Sukanya has worked as a faculty of Institute of Management Technology, Ghaziabad and presently she is working as an Assistant Professor in the area of information technology at Mody Institute of Technology and



Science. She is also doing her Ph. D and her main area of research interest is technology application in banking.

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## DO GREEK CONSUMERS BOYCOTT UNETHICAL BUSINESS PRACTICES?

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### **Abstract**

This paper presents the results of a survey conducted among randomly selected 494 consumers residing in the urban area of Thessaloniki, Greece. The results indicated moderate adoption of boycotts among respondents. It seems that greek consumers boycott products threatening consumers safety, containing GMOs and those incorporating child labour. Consumers boycotting more are middle aged (50-59years old), well educated (post-graduates) and holding relatively higher income (40-50 th. €). With regard to their values boycotters are influenced by the value of Universalism and Self-direction.

### **Introduction**

Crane and Matten (2003) suggested that 'ethical consumption is the conscious and deliberate choice to make certain consumption choices due to personal and moral beliefs'. Ethical consumption simultaneously aims at the overall social welfare and at the satisfaction of consumers' needs and wants (Crane, 2001). It may be argued that ethical consumption includes a wide-range of consumers' activities. In an effort to categorise all possible activities in a manageable way Tallontire et al. (2001) proposed three forms of ethical consumerism namely positive, negative and consumer action. The later form has been named 'discursive' by Michelletti et al. (2005). The positive type concerns the choice of ethical products or service (e.g. eco-efficient products, organics, fair-trade products etc.). The negative type concerns the boycotting or consumers' remit from particular products, certain firms or groups of firms or more generally actions of denial or exit from a certain market. The discursive type refers to a number of contemporary cultural actions of individuals using mostly digital means in constantly changing forms.

Of the three above mentioned types of ethical consumption, the positive type has been more investigated than the other two types. There is scarcity of papers with reference to the other two types of ethical consumption, namely the boycotting and the discursive actions.

The negative ethical consumption (boycott) includes the refusal of buying products produced by business that challenge consumer ethics regarding the environmental destruction, the exploitation of workers or local producers in the underdeveloped countries, child labour, animal rights etc. The negative ethical consumption is suggested to include two types of action, the positive boycotts and the negative buycotts (Friedman, 2001). The boycotts takes the form of a 'black list' of products that consumers should not buy and the buycotts takes the form of a 'white list' of products that consumers should choose to buy (Friedman, 2001). There are claims that boycotts organized worldwide have been increasing (Friedman, 1999).

This paper presents the results of an exploratory study with reference to the second type of ethical consumption; more specifically the focus of this paper has been placed on boycott. The research was conducted in Thessaloniki, Greece. The findings of the study provided evidence about the extent to which boycotts are adopted by Greeks, as well as some evidence with regard to which demographics and values are able to influence this type of ethical behaviour.

## **Relevant Literature**

It has to be noted that there are some studies after the 2000, in which the concept of ethical consumer behaviour incorporated both positive ethical consumption and boycotting. Previous research findings with reference to demographics indicated about age that middle-aged consumers are more ethical (Cowe and Williams, 2000); also, that young consumers are unwilling to sacrifice convenience in order to behave as ethical consumers (Carrigan and Attalla, 2001). With regard to the social class, Cowe and Williams (2000) found that consumers, who belong in the upper social class (earn more than 40.000 pounds) are the most ethically active consumers. With reference to values, Cowe and Williams (2000) formulated two groups of consumers: those who were named “value-led” (focus on economic security) and those named “values-led” (focus on self-expression and quality of life). They found that “values-led” consumers are more concerned about ethical issues and make their purchases accordingly.

There have been a number of studies, which focused exclusively on the negative type of ethical consumption (boycotting). Important influential factors that motivate compliance to boycotts have been found to be: perception of boycott success (Sen et al., 2001; Klein et al., 2003), cost of boycotting (Sen et al., 2001; Klein et al., 2003), social pressure (Sen et al., 2001; Klein et al., 2003), social image of boycotters (Kozinets and Handelman, 1998), moral self expression (Kozinets and Handelman, 1998), self-realization (Kozinets and Handelman, 1998), self-enhancement (Klein et al., 2003), express uniqueness (Kozinets and Handelman, 1998), freedom from guilt (Kozinets and Handelman, 1998; Klein et al., 2003), target’s perceived egregiousness (Klein and Smith, 2001; Klein et al. 2003).

This type of behaviour has been never investigated in the Greek market so no relevant research results exist in reference to the Greek consumers.

## **Aim and Method**

### **Objectives**

- To investigate the level of the boycotting adoption among Greek consumers
- To reveal the influence of demographics and psychographics upon this type of behaviour.

### **Sampling**

A survey was conducted among the households of the urban area of Thessaloniki, Greece. A structured questionnaire was administered to 500 households and provided 494 usable questionnaires. Trained marketing students approached respondents to take personal interviews. The sampling method used was the one-stage area sampling (Tull and Hawkins, 1993, p. 544; Zikmund

1991, p. 471). This means that in a map of Thessaloniki a number of blocks were selected randomly; the questionnaire was administered to all houses and apartment included in this block. This sampling method does not lack in probability while it conserves time in comparison to the two-stage area sampling.

### Questionnaire Content

The Negative Ethical Consumption (NEC) was estimated through an 8-items multi-item variable (Cronbach's  $\alpha=0.8680$ ). The respondents were asked what they usually do about a list of 8 unethical products or companies. The thematic response scale was: 0= Never heard, 1= Heard it happens, unaware of certain companies, 2= Try not to buy when I can find alternatives of similar price and quality, 3=Stop buying if there is a prompt or campaign, 4= Right away stop buying certain products – brand names. With regard to demographics age, education, gender and income were selected to be examined. With regard to values, the Schwartz's (1992) list of values was incorporated to assist in the investigation of the psychographic profile of potential boycotters.

## Results

### Descriptives

The Negative Ethical Consumption (NEC) provided a Mean of 16.7611 (theoretical values from 0 to 32). This finding indicated a moderate adoption of boycotting. With reference to the multi-item measure as a whole, it is noted that the relevant majority (28.7%) of the respondents declared stop buying if an alternative is available (Table 1).

	%
<i>Never heard</i>	13.2
<i>Heard it happens. Unaware of certain companies</i>	21.9
<i>Try not to buy when I can find alternatives of similar price and quality</i>	28.7
<i>Stop buying if there is a prompt or campaign</i>	14.2
<i>Right away stop buying certain products – brand names</i>	22.1
<i>Total</i>	100.0

Table 1: Negative Ethical Consumption (overall engagement)

With reference to each separate behaviour, the higher means (Table 2) were indicated with regard to avoidance of dangerous products, GMOs and products embodying child labour (N03, N04, N05). The lowest means were obtained with regard to exploitation of employees, and financial support to governments responsible for war (N07, N08).

	<i>What would you do about products or business, which have been blamed for:</i>	<i>Mean</i>	<i>Std. Dev.</i>
N01	<i>Environmental damage</i>	1.89	1.34
N02	<i>Financial scandals (bribery of social servants, cartels etc)</i>	1.93	1.32
N03	<i>Scandals concerning product safety (e.g. dangerous gadgets, toys etc)</i>	2.67	1.55
N04	<i>Genetically modified organisms</i>	2.37	1.64
N05	<i>Child labour</i>	2.23	1.60
N06	<i>Animal testing</i>	2.03	1.48
N07	<i>Exploitation of employees</i>	1.81	1.63
N08	<i>Financial support to governments, responsible for wars</i>	1.82	1.57

Table 2: Negative Ethical Consumption (items Means)

## Analysis

The ANOVAs One-way were calculated for the Negative Ethical Consumption across the categories of each demographic variable. Statistically significant differences ( $p < 0.05$ ) were found with age (50-59 years old), education (post-graduates) and income at  $p < 0.10$  (40-50 th. €)

The partial Pearson's correlations was then employed to indicate the strength and the sign of the statistically significant relationships (if any) between the Negative Ethical Consumption scale and each one of the sub-measures of the Schwartz's (1992) list of values. This technique was selected due to the fact that the variables under investigation are all measured on interval response scales. A positive link of considerable strength was found between Negative Ethical Consumption and Universalism ( $r = 0.462$ ), which can be characterized almost strong; while a number of other positive, weak relationships of Negative Ethical Consumption were found with Self-direction ( $r = 0.256$ ), Benevolence ( $r = 0.248$ ), Stimulation ( $r = 0.185$ ), Security ( $r = 0.180$ ), Conformity ( $r = 0.173$ ) and Hedonism ( $r = 0.156$ ).

Then, the multiple regression analysis (stepwise method) was selected to examine the influence of the interaction between all independent psychographic variables upon the Negative Ethical Consumption. The equation revealed that only Universalism and Self-direction were included. The interaction between Universalism and Self-direction can explain the 23% of the variance in Negative Ethical Consumption. All other variables were excluded. The resulting equation is:

$$\text{Negative Ethical Consumption} = -3.896 + 0.425 \text{ Universalism} + 0.145 \text{ Self-direction}$$

## Discussion

It is to be discussed that there are some rather high findings of boycotting, those that concern the GMOs, the children's exploitation etc. These findings generate queries with reference to their validity, as in fact it is difficult to get information about which particular products contain GMOs, or child



exploitation. Theoretically GMOs are not permitted in Greece and child labour is strictly forbidden. On the other hand, it is not often to meet relevant campaigns on the internet or on the streets which concern imported products or multi-national companies. So, it might be argued that the real meaning of these findings is that once a campaign appeared there would be many Greeks willing to follow and stop buying the target-product or company. Eventually the results indicated that citizens would be rather willing to stop buying dangerous or embodying GMOs or child labour products; especially if they were asked to follow a prompt or campaign, or even more if they were able to find ethical products to replace them.

## Conclusions and Implications

The findings of this study indicated that the boycotting is not a well established norm in the Greek society. With reference to their demographics the potential boycotters should be mostly men and women of 50-59 years of age, holding post-graduate degrees and family incomes rather higher than their counterparts. With regard to the values that may be behind the ethical consumerism, it was found that there is a very important moderate, almost strong relationship between boycotting and Universalism. In addition the interaction of Universalism with the Self-direction can predict a rather noteworthy percentage of the variance in negative ethical consumption.

Taken in overall the descriptive, demographical and psychographical findings of this study might very well provide certain implications to the NGOs or to other citizens' associations interested in organising boycotting against unethical business practices. These organizations should keep in mind that they might find audience in middle-aged, well educated consumers. They should approach them by providing information about ethically oriented alternative buying choices. They should also incorporate in their communicative messages claims about the universal benefits that any specific boycott may have.

## Further Research Suggestions

This exploratory study assisted in starting to get information on a rather blank area of research in Greece. Further future research is definitely needed in order to understand better the concept of the negative ethical consumption; also to describe its aspects and insights and also reveal as many as possible of the factors that are able to influence this type of behaviour. Qualitative research methods should be employed to fulfil the above direction. Qualitative tools (in depth interviews, focus groups etc) will be also useful during the early stages of the development of reliable and valid measures, adequate for a future large-scale quantitative survey in order to obtain better measurement accuracy.

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## TEST OF A SERVICE PROFIT CHAIN MODEL IN THE GREEK BANKING SECTOR

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### Abstract

The paper examines the relationships between climate, organizational commitment and financial performance in the Greek retail banking sector. A total of 331 questionnaires were completed by bank employees. Data were analyzed via confirmatory factor analysis, exploratory factor analysis, reliability analysis and correlation analysis. Contrary to expectations, both employee attitudes (affective commitment) and perceptions (morale climate) were unrelated to business performance. Because of the chosen research approach, results may lack generalizability. Therefore, researchers are encouraged to test the reported findings further. Current findings might enhance our understanding of the nature –and management- of affective organizational commitment and morale climate in Greek retail banking. This paper offers insights into affective commitment in the relatively under-researched Greek context.

**Keywords:** Commitment; Climate; Performance; Service-profit chain; Greece

### Introduction

Researchers have recently reported that positive employee work experiences, as reflected by a variety of attitudinal and perceptual measures, are associated with enhanced financial performance (Gelade and Young, 2005, p. 2). One plausible account of the link between employee work experiences and financial performance holds that, in the service sector, customer satisfaction is a critical intervening variable (Gelade and Young, 2005, p. 2). This view of organizational performance is acknowledged as the *service profit chain* (Heskett et al, 1997). Simply stated, the service profit chain asserts that motivated and satisfied employees “create” satisfied customers; and satisfied customers tend to purchase more, increasing the revenue and profits of the organization. Indeed, Heskett et al (1997) define the service profit chain as “involving direct and strong relationships between: profit; growth; customer loyalty; customer satisfaction; the value of goods and services delivered to customers; and employee capability, satisfaction, loyalty and productivity” (p.11).

Following Gelade and Young (2005), we shall attempt to enhance the service profit chain approach by incorporating the conceptual model of organizational functioning proposed by Ostroff and Bowen (2000). According to Ostroff and Bowen, a fair and consistent HR system communicates positive and clear signals to employees and fosters the development of positive perceptions of what the organization is like (e.g. a favorable climate). Climate, in turn, influences employee attitudes (i.e. organizational commitment). Positive attitudes lead to salient employee behaviors - such as attachment (increased attendance), job performance (execution of in-role activities) and citizenship (engagement in discretionary extra-role behaviors) that enhance organizational performance.

Empirical evidence for such linkages has been reported by Simons and Roberson (2003). Within this conceptual framework, the service profit chain may be described as follows: company climate influences both organizational commitment and firm performance; while organizational commitment also influences business performance. In this paper, we attempt to explore the adequacy of this model in accounting for the profitability of some Greek retail banks.

## **Theoretical framework**

### **Organizational climate**

The concept of organizational climate was developed in the late 1930's by Lewin and Associates (Lewin et al, 1939). Ekvall (1996) noted that organizational climate is approached via two diverse viewpoints: as an employee perception about their working environment; and as an objective property of an organization. Several researchers have favored the perceptual approach, asking participants to assess the extent to which certain items characterize their work setting (Bellou and Andronikidis, 2009, p. 296). For example, Forehand and von Gilmer (1964, p. 362) define organizational climate as: "...the set of characteristics that describe an organization and that a) distinguish the organization from other organizations, b) are relatively enduring over time, and c) influence the behavior of people in the organization. In a similar vein, Schneider (1990, p.384) conceptualizes climate as "incumbents' perceptions of the events, practices and procedures and the kinds of behaviors that get rewarded, supported and expected in a setting". Whereas, Isaksen and Ekvall (2007) view climate as "recurring patterns of behavior, attitudes, and feelings that characterize life in the organization" (Akkermans, Isaksen and Isaksen, 2008). The objective approach, which focuses on organizational differences has been much less popular (Bellou and Andronikidis, 2009, p. 296).

The multi-dimensionality of organizational climate is widely accepted by O.B. researchers (Bellou and Andronikidis, 2009, p. 296). One climate dimension that has not yet received attention is morale climate. Employees' morale, according to Abbott (2003) "is very important in the quest for high customer satisfaction levels. This is because satisfied employees have such positive energy and such willingness to give good service that the customers get at the least a *perceived* better product or service, so that they in turn become much more satisfied and loyal to the company" (p. 334).

### **Organizational Commitment**

The concept of organizational commitment has attracted considerable attention over the last forty years and has become a central objective of human resource management (Nehmeh, 2009). There are two main ways in which commitment has been conceptualized in the literature: as an attitude and as behavior (Shepherd and Mathews, 2000). Probably the most popular method of defining the concept has been through an individual's attitudes and feelings towards his or her employing organization (attitudinal commitment). Featured in the works of Porter et al (1974) and Mowday et al (1982), attitudinal commitment is "...the relative strength of an individual's identification with and involvement in a particular organization (Porter et al, 1974, p. 604). It is characterized by three components: identification, involvement and loyalty. These translate to: an

understanding and strong belief in and acceptance of the organization's goals and values; a willingness to exert considerable effort on behalf of the organization; and a strong desire to remain in the employ of the organization (Dimitriades, 1988). Perhaps, the most popular global measure of attitudinal commitment is that of the Organizational Commitment Questionnaire (OCQ) developed by Porter et al in 1973. According to Mathieu and Zajac (1990) 103 out of 174 studies they investigated used the OCQ. Despite the methodological concerns about its dimensionality (Benkoff, 1997) this instrument has continued to be used and indeed the figures reported by Mathieu and Zajac may actually be an underestimation of today's literature output.

The prevailing definition of organizational commitment distinguishes affective organizational commitment from other types of commitment – such as normative and continuance commitment (for a comprehensive review, see Meyer and Hercovitch, 2001). The focus in this study is on affective organizational commitment, which characterizes the strength of an employee's emotional attachment to an organization. "Meyer and Allen illustrated a positively correlated relationship between affective commitment and work attendance (that is, affectively committed employees are more eager about their work and more motivated to dedicate a lot of time and effort to accomplish the tasks required. Moreover, in-role job performance as well as extra-role behavior have been reported to be higher among employees with strong affective commitment. Therefore, obtaining affective commitment from employees may have positive effects for the organization, even though some of the magnitudes of the findings are not very high" (Nehmeh, 2009).

### **The climate-commitment link**

According to Gelade and Young (2005) and Welsch and LaVan (1981) favorable climates are associated with / lead to high levels of commitment. Hence, our first hypothesis is formulated as follows:

*H1. A favorable morale climate positively influences organizational commitment.*

### **The commitment-performance link**

Maxwell and Steele (2003) found that the cumulative effects of organizational commitment outcomes have a positive impact on organizational performance. Moreover Rashid, Sambasivan and Johari (2003) report that their results show that "organizational commitment has an influence on the financial performance (profitability measures) of the organization" (p. 724). These findings led to the development of our second hypothesis:

*H2: Affective commitment to the organization impacts organizational performance.*

### **The climate-performance link**

Abbott (2003) claims that employees “with morale problems tend to be inwardly focused, and more concerned with internal company processes and procedures (and issues) than with the customer. This can lead to a lowering of customer satisfaction and profits which further lowers the morale among employees as there are heightened possibilities of redundancies. Fear of redundancy can lead to higher employee attrition” (p. 334). Grounded on this theoretical frame, our third hypothesis was advanced:

*H3: A favorable morale climate positively influences financial performance.*

Our proposed theoretical model is presented in Figure 1.

## **Method**

### **Organizations, sample characteristics and procedure**

The organizations participating in this study are seven retail banks located in the city of Athens. These organizations are all large financial corporations with national branch networks. They serve a similar mix of private and corporate customers, and provide a similar range of products and services - such as current and savings accounts, loans, mortgages, insurance, business advisory services, and automated cash withdrawal through their branch networks.

Self-administered questionnaires were personally distributed by the research team to 415 employees in branches located in the cities of Athens and Thessaloniki. Participation was voluntary. By the cutoff date for data collection, 331 usable surveys were retrieved from the employees.

The sample comprised 136 (41 percent) males and 195 (58 percent) females. Forty percent of the respondents were between the age of 18 and 34, and fifty six percent were between 35 and 54 years old. Little more than one-half (53%) of the co-opting employees held a university degree. Approximately one third of the respondents (33%) had tenures of 5 years or less, forty two percent had tenures between 6 and 15 years, and twenty seven percent had been with the bank for more than fifteen years.

## **Measures**

*Morale Climate* was measured using five items suggested by Young (2000). Responses to the scale items were elicited on five-point scales ranging from 5 (strongly agree) to 1 (strongly disagree). Descriptives are cited in Table 1.

*Affective commitment* was tapped by Allen and Meyer's (1990) six-item instrument. Responses to each survey item were recorded on a 5-point Likert scale (strongly agree-strongly disagree), with higher numbers indicating increased levels of favorable responding. Descriptives are cited in Table 1.

*Financial performance.* Following Kosmidou (2008), return on assets (RoA) was used as a measure of bank performance. Return on assets is the net profit after tax divided by total assets and “indicates the returns generated from the assets financed by the bank” (Kosmidou, 2008, p. 148).

The questionnaire was originally developed in English and was translated in Greek, following a process of back translation (i.e. English-Greek-English). To ensure content validity, prior to data collection, a pilot study was undertaken and appropriate modifications were introduced –when the need arose- to fit organizational commitment measures to the Greek context.

## Analysis and Results

Scale construction began with examination of individual responses. Candidate scales were identified by subjecting the eleven survey items to exploratory factor analysis (EFA) – specifically, principal components analysis with oblimin rotation. Results are shown in Table 2.

Next, the items in Table 2 were subjected to confirmatory factor analysis (CFA) using the AMOS modeling program. Items representing each construct emerged as expected as a result of exploratory factor analysis. Results of confirmatory factor analysis also indicated that each item loaded significantly on its respective underlying concept (see Table 3). On the basis of EFA and CFA results, two composite scales were created by summing and averaging respective items. As reported in Table 5, the internal consistency (coefficient alpha) of both measures is well above the commonly accepted threshold of 0.70. Descriptive statistics and correlations of composite measures are presented in Table 5.

## Discussion

Our first comment concerns the fairly *low* level both of morale climate and affective commitment among the employees participating in the study ( $\bar{x} = 2.77$  and  $\bar{x} = 2.90$ , respectively). Specifically, only 35 percent of co-opting employees had positive perceptions of morale climate – compared to 53 percent that had negative perceptions. The corresponding figures for affectively committed (versus uncommitted) individuals were 50 percent and 44 percent, respectively. These findings may pose some interesting challenges for participating organizations, since “meta-analyses provide strong evidence that higher affective commitment is associated with the presence of organizational support and fairness, and the absence of work-stressors such as role ambiguity or conflict” (Markovits et al, 2008, p. 485).

Although Greece is represented in most studies of cross-cultural variation (Hofstede, 1980, 2001; House et al, 2004; Papalexandris et al, 2002), organizational commitment is barely reported from a Greek perspective (Bourantas, 1988; Bourantas and Papalexandris, 1992; Dimitriades, 1988; Markovits et al, 2007). Both Bourantas and Dimitriades employed the Organizational Commitment Questionnaire (OCQ), the most widely used commitment scale at the time, the validity and reliability of which has been questioned by Benkhoff (1997). Taking into consideration the culture-specific nature of Greek human resource management (HRM) practices (Myloni et al (2004) as well as the latest evidence on the moderating effects of national culture on organizational commitment (Gelade et

al, 2008; Meyer et al, 2002; Suliman and Iles, 2000) it may be concluded that current findings are inconclusive and that the issue of organizational commitment in Greece still remains largely unexplored.

As may be noted from Table 4, on the bivariate level of analysis, morale climate is strongly positively related to affective commitment ( $r = 0.72$ ) - in line with hypothesis H1. Surprisingly neither morale climate nor affective commitment are associated with financial performance, providing no support for hypotheses H2 and H3. One potential explanation for the unidentified linkages in the present study (e.g. the commitment-performance and the climate-performance links) may be found in Meyer et al's (2002) argument that affective commitment is a powerful predictor of job outcomes in the (individualistic) US (Markovits et al, 2007); as well as in Alqurashil's (2009) findings that power distance relates negatively to affective commitment in Saudi Arabia. While Greece is clearly distinguishable from Anglo and East Asian countries, it shares considerable similarities with Latin, Eastern European, and Arabic countries (Markovits et al, 2007, p. 79).

On the basis of these findings, structural equation modeling (SEM) was not performed to test the causal links proposed in our research model.

### Managerial/policy implications

Many ways can be used to create/develop employee commitment (Sutanto, 2004). Dessler (1993) suggested eight *keys*, which he called the "commitment wheel", alongside a list of best practices. The first key is called '*people-first*' values. According to Dessler, it is futile to try to create commitment unless 'people-first' values, management trust and 'respect for people' exist. The second is '*double talk*', that is 'express a willingness to hear and be heard, or use open and candid two-way communication'. The third is *communion* - i.e. fostering a sense of connectedness, belonging and participation among employees. The fourth is *transcendental mediation* - formulating shared ideologies, missions and values, as well as mechanisms for communicating these values to employees. The fifth is '*value-based*' hiring - selecting employees whose values are compatible with those of the organization. The sixth is *securitizing* - providing employees with job security. The seventh is *hard-side rewards* - offering packages of above-average pay combined with incentives and extensive benefits. The last key is *actualizing* - ensuring that all employees have an opportunity to use all their skills and gifts at work; to become all they can be (Dessler, 1993).

Moreover since affective organizational commitment has been found to be significantly related to internal marketing practices (Caruana and Calleya, 1998), alternatively, a company may introduce an internal marketing program - treating both employees and customers with equal importance in order to achieve organizational objectives (Farzad, Nahavandi and Caruana, 2008).

### Limitations and directions for future research

Although it has been claimed that positive employee work experiences, as reflected by a variety of attitudinal and perceptual measures, are associated with enhanced financial performance, several complexities associated with such research need to be acknowledged. One explanation of current



findings may lie in the occupational group being studied (banking employees), since correlates of commitment have been found to differ between occupational groups (Swales, 2002, p. 163). A second explanation could relate to the climates of the organizations participating in the research. Organizational policies, systems and poor management skills may have intervened to prevent highly committed persons from converting their commitment into performance outcomes. A third explanation may concern the way “performance” has been measured. To overcome faced problems, future studies might use a combination of financial and non-financial indicators of performance, as well as perceptual in addition to objective measures. And last, but not least, potential effects of culture cannot be ruled out since most of previous research findings are based on western cultures.

Perhaps, the major limitation of the current study is “the distance” between the employee variables (e.g. morale climate and affective commitment) and the organizational variables (financial performance) being studied. Moreover, the surveyed employees were selected from only one economic sector and results are based on convenience sampling. Future research focusing on the service profit chain model -especially in Greece- might incorporate employee-customer linkages, while using more articulate sampling techniques.

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## Appendix

	<i>Mean</i>	<i>SD</i>	<i>Cronbach's Alpha</i>
<i>Affective Commitment (AC)</i>			<i>0,89</i>
<i>Item Statement</i>			
<i>AC1: I enjoy discussing my organization with people outside it</i>	<i>2,74</i>	<i>1,20</i>	
<i>AC2: I really feel as if this organization's problems are my own</i>	<i>2,94</i>	<i>1,20</i>	
<i>AC3: I think that I could easily become as attached to another organization as I am to this one</i>	<i>2,65</i>	<i>1,19</i>	
<i>AC4: I do not feel "emotionally attached" to this organization</i>	<i>3,00</i>	<i>1,17</i>	
<i>AC5: This organization has a great deal of personal meaning for me</i>	<i>3,25</i>	<i>1,10</i>	
<i>AC6: I do not feel like "a part of the family" at my organization</i>	<i>2,84</i>	<i>1,11</i>	
<i>Morale Climate</i>			<i>0,88</i>
<i>Item Statement</i>			
<i>MC1: There is good team spirit in this org.</i>	<i>3,08</i>	<i>1,09</i>	
<i>MC2: There is a lot of positive energy in this org.</i>	<i>2,64</i>	<i>1,05</i>	
<i>MC3: The morale in this org. is high</i>	<i>2,63</i>	<i>0,98</i>	
<i>MC4: Employees go about their work with enthusiasm</i>	<i>2,69</i>	<i>0,99</i>	
<i>MC5: Employees take pride in this bank</i>	<i>2,82</i>	<i>0,97</i>	

Table 1. Scale items, descriptive statistics and reliabilities

<i>Item</i>	<i>Statement</i>	<i>Factor</i>	
MC1:	There is good team spirit in this org.	-0,095	0,862
MC2:	There is a lot of positive energy in this org.	-0,007	0,876
MC3:	The morale in this org. is high	0,043	0,789
MC4:	Employees go about their work with enthusiasm	0,061	0,790
MC5:	Employees take pride in this bank	0,162	0,669
AC1:	I enjoy discussing my organization with people outside it	0,596	0,115
AC2:	I really feel as if this organization's Problems are my own	0,745	0,058
AC3:	I think that I could easily become as attached to another organization as I am to this one	0,894	-0,114
AC4:	I do not feel "emotionally attached" to this organization	0,875	0,005
AC5:	This organization has a great deal of personal meaning for me	0,863	-0,024
AC6:	I do not feel like "a part of the family" at my organization	0,600	0,300
	<i>Eigenvalue</i>	6,27	1,05
	<i>% of Variance (cumulative)</i>	57,0	66,5

Table 2. Exploratory Factor Analysis (EFA) Results

	Standardized Loadings	t-Values	Standardized Loadings	t-Values
<i>Affective Commitment (AC)</i>				
<i>Item Statement</i>				
AC1: I enjoy discussing my organization with people outside it	0.62	8.79	-	-
AC2: I really feel as if this organization's problems are my own	0.73	10.85	-	-
AC3: I think that I could easily become as attached to another organization as I am to this one	0.74	11.05	-	-
AC4: I do not feel "emotionally attached" to this organization	0.85	12.15	-	-
AC5: This organization has a great deal of personal meaning for me	0.80	11.58	-	-
AC6: I do not feel like "a part of the family" at my organization	0.82	11.80	-	-
<i>Morale Climate (MC)</i>				
<i>Item Statement</i>				
MC1: There is good team spirit in this organization	-	-	0.70	12.32
MC2: There is a lot of positive energy in this organization	-	-	0.82	13.77
MC3: The morale in this organization is high	-	-	0.78	13.16
MC4: Employees go about their work with enthusiasm	-	-	0.80	13.38
MC5: Employees take pride in this bank	-	-	0.76	11.78
<i>Fit Indices</i>				
X <sup>2</sup>	156.164			
DF	43			
Probability level	0.000			
CMIN/DF	3.63			
GFI	0.92			
AGFI	0.88			
NFI	0.93			
CFI	0.95			
RMSEA	0.08			

Table 3. Confirmatory factor Analysis (CFA) Results

	EC1	EC2	EC3	EC4	EC5	EC6	MC1	MC2	MC3	MC4	MC5
EC1	-										
EC2	.52	-									
EC3	.42	.53	-								
EC4	.47	.62	.69	-							
EC5	.51	.58	.60	.69	-						
EC6	.51	.56	.58	.70	.64	-					
MC1	.42	.36	.34	.45	.44	.56	-				
MC2	.44	.52	.43	.52	.46	.61	.66	-			
MC3	.42	.46	.47	.51	.48	.49	.53	.64	-		
MC4	.41	.51	.46	.53	.44	.59	.55	.66	.60	-	
MC5	.38	.47	.45	.51	.55	.57	.46	.57	.66	.62	-

Table 4. Item inter-correlations

Note: N = 331, All correlations significant at  $p = 0.001$

Scale	Mean	Standard Deviation	1	2	3
1 Morale Climate	2.77	0.84	(0.88)		
2 Affective Commitment	2.90	0.94	0.72**	(0.89)	
3 Financial Performance	0,0118974	0,0055044	0.07 ns	-0.04 ns	-

Table 5. Bivariate correlations of composite measures

\*\*Correlation is significant at the 0.01 level (2-tailed).

Values in parentheses are reliability estimates (Cronbach's alpha). N= 331

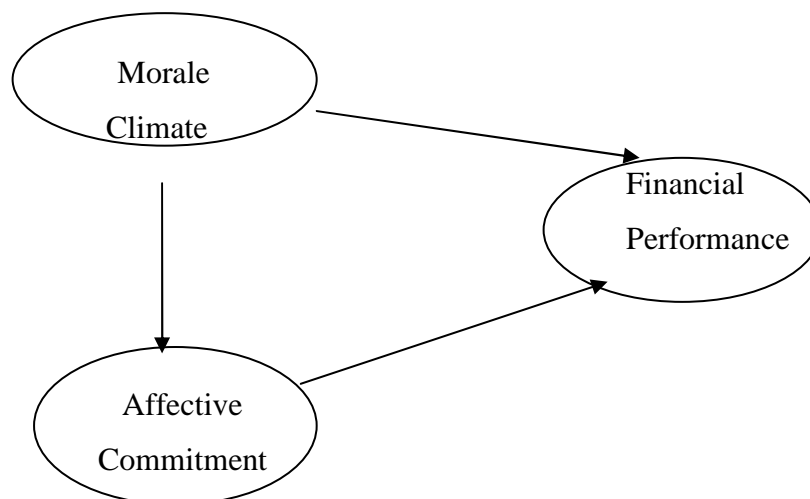


Figure 1

## CUSTOMER PERCEPTIONS ON E-BANKING IN INDIA- A SECURITY AND PRIVACY PERSPECTIVE

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### Abstract

The paper intends to measure the security and privacy issues and their acceptance among mature customers in India. The investigation explains that how mature consumer perceives e-services for example, electronic fund transfer for small amount or large amount of money in addition to automated teller machine for withdrawing cash and convenient account access. The data required for fulfillment of the objectives was gathered from 117 mature customers who have above the age of 35 through well structured questionnaire. In the questionnaire 20 questions were analyzed on Likert scale. Descriptive statistics was used to explain demographic profile of the respondents. Frequency and Percentage method were used to measure the level concern about security and privacy and their acceptance of online banking in India. The results in the paper showed that there are many factors such as familiarity, economy benefits, and trust increases the acceptance of online banking between mature customers. There are four hypothesis were analysed and found that mature customers are very much concern regarding online transaction security is mostly due to spreading stories of credit card fraud and hacking and others. The finding shows that in spite of their security and privacy concern, mature customers are willing to adopt online banking if banks provide him necessary guidance. The findings of this paper are reached to 117 respondents and do not consider less educated mature customers who are less educated or those who never used computers or accessed the Internet. Furthermore, the research could encompass other aspect of acceptance of online banking. This paper suggests the opinion of mature customers in online banking. Based on the results of current study, Bank's managers would segment the market on the basis of age group and take their opinion and will provide them necessary guidance regarding use of online banking. This study explores the opinion of mature customers and discusses their level of concern regarding to security and privacy issues.

**Keywords:** Security and Privacy, Mature Customers, E-banking, India

### Introduction

Internet banking involves, consumer using the Internet to access their bank account and to undertake banking transactions. At the basic level, Internet banking can mean the setting up of a web



page by a bank to give information about its products and services. At an advanced level, it involves provision of facilities such as accessing accounts, transferring funds, and buying financial products or services online. This is called “transactional” online banking (Sathye, 1999). In spite of the great benefits of the online banking, it is extremely essential that banks regard the risks associated with it. One significant step that banks must take before going through any transformation is to insure the proper handling of online banking risk (Al-Alawi, 2005). But it is very difficult for both the customers and the banks to determine the best approach to use of online banking. A particular risk arises with trying to integrate new channels with existing channels (Aljlfri et. al., 2003). In India, slowly but steadily, the Indian customer is moving towards Internet banking. But they are very concern about security and privacy of internet banking (Malhotra and Singh, 2009). In the Internet banking trust plays a very important role. It is very difficult to analyze trust as a phenomenon and may be almost impossible to analyze trust in the context of electronic commerce because of the complexity and risk of electronic commerce. Trust will be the decisive factor for success or failure of e-businesses. Karake Shalhoub (2002a and 2006b) has studied a number of US-based pure play firms to determine what she labeled trust enhancers. Her findings identified two main categories: privacy and security as the main determinants of trust in electronic commerce. Privacy has long been defined as the right of a person to be left alone and to be able to have control over the flow and disclosure of information about him or herself (Warren and Brandeis, 1890). Worries about privacy are not new, although businesses have gathered information about their customers for years. However, privacy issues often come about because of new information technologies that have improved the collection, storage, use, and sharing of personal information.

This study focuses only on mature customer acceptance of online banking. Now there are number of study has been done. But there seems to be no clear definition for the mature consumer. Some of the earliest studies in the field considered 35-plus customers are mature (Al-Alawi, 2005) and some 50-plus segment of the population as a “mature” market (Bartos, 1980). Conaway (1994) states that the mature market is the group of consumers over the age of 50, but sometimes grouped as those over the age of 55. Today’s mature consumers are often defined as those falling into the 55-plus segment (Kennett et al., 1995; Moschis et al., 2004) while some of the studies restrict mature consumers to those over 65 years of age (Oumlil et al., 2000; Mattila et al., 2003). In this study mature consumers are defined as those consumers over the age of 35.

The Purpose of this paper is to gain an understanding of the acceptance of online banking in an Indian market where the 70% population reside in rural areas and 30% population reside in urban area of the country (Gerrard and Cunningham, 2003). This study explore acceptance of online banking in India from the point of view mature of customer above the age of 35 and investigate how mature customers perceive electronic banking services? As well as also depicts that what are the acceptance factors in spite of security and privacy concern between Indian customers? And what should be guidance provides by banks to customers that they can increase their willingness to adopt online banking? The answers of these questions are found through a simple survey for a random sample. In conclusion and recommendations are given based on the survey findings.

## Research Hypothesis

It is indeed essential to emphasize the fact that the Indian culture is different from the countries where previous research was conducted. The researchers predicted that the familiarity and economic benefits of using the Internet has a significant impact on the acceptance of online banking. If mature customers are not used to accessing the Internet frequently, and if they do not trust the Internet as a secure environment to conduct financial transactions, then it is nearly impossible for them to accept online banking. Therefore, the following is hypothesized:

*H1.* Mature people do not believe that the Internet banking is secure for conducting financial transactions.

*H2.* Mature people do not believe that the Internet banking make private their financial information.

*H3.* Banks do not put considerable effort in increasing their customers' awareness on online banking and how to use it.

*H4.* Mature customers would adopt online banking if they were educated more about it and if they acknowledged the convenience it provides.

## Literature review

A review on the literature related to this topic revealed a variety of results. Some researches were conducted to compare adaptation of online banking between young customers. Other topics were concerned with the customers' income and gender as comparison criteria.

## Perception of mature customers

Electronic banking is offering its customers with a wide range of services: Customers are able to interact with their banking accounts as well as make financial transactions from virtually anywhere without time restrictions. Mature customers are changing their existing pattern of use of traditional banking and switch over advanced self-service technology (Curran and Meuter, 2007). Liao and Cheung (2002) stated that willingness to use Internet banking depends on the expectations of accuracy, security, network speed, user-friendliness, user involvement, and convenience. A study between Turkey vs. UK has been found that Privacy is the single most important characteristic because of its effect on customers' perceptions. To access the private information shared between the bank and the customer (Sayar and Wolfe, 2007). It is argued that in the e-bank context, the security issue is crucial once, it involves directly the user's actives (Cockburn & Wilson, 1996; Pavlou, 2001).

Hill (2004) conducted a study concerned with identifying the characteristics of online banking users. She mentioned that it is commonly assumed that demographics do influence the acceptance of electronic self-service tools, such as online banking. The results of the study were that people who use such services are young, trendy and high-earning. They actively seek out online banking tools, and they want to conduct all transactions through the same channel. Nevertheless, Lee (2000) conducted a similar research and arrived at different results. He found that the Customer Relationship Management (CRM) efforts of the banks themselves have the real influence on who accesses online

self-service tools than any other factor. Therefore, customers tend to use such tools based on attitudes, not demographics. Other study by Al-Alawi (2004) investigated the CRM's actual implementation by finding the criteria and problems that needed to be tackled in order to implement a successful CRM program in banking.

An empirical study by Pew Internet & American Life Project dated 2002 was concerned with the number of people banking online and their gender in addition to their age. The study found that men are somewhat more likely to bank online than women. Also, younger and middle-aged Internet users are the most likely group to turn to online banking. The highest category using online banking in the survey was people aged 30 to 49, the lowest category is above 65 and the rest of them are in between. Of great value was the study of Mattila et. al., (2003). The study was concerned with analyzing the adoption of Internet banking among mature customers. The results show that people over the age of 65 generally tend to be late adopters of technologies. They found that mature customers who discontinued the use of online banking blamed insufficient or non-existent training on how to use the technology. They also pointed that confusing web pages and complex steps discouraged their adoption of online banking. Subsequently, they recommended developing three dimensional web pages with voice recognition, using video technology to provide access to bank employees. Also, Sohail and Shanmugham (2004) wrote a paper concerning customers' preferences in E-banking in Malaysia. Their results were based on a survey of 300 respondents. Their conclusion indicates that age and educational qualifications of electronic and conventional banking have no significant impact on E-banking adoption. Instead, they argued that accessibility to the Internet, awareness of E-banking and customers' resistance to change are the main factors influencing the adoption.

Fitzgerald (2004) choose to analyze four different research papers to identify current and potential customers' perceptions on online banking. He concluded that there are common perceptions regarding online banking with disregard to demographic, geographic or psycho-graphic characteristics. He argued that among the major 'non-adoption' areas are the security concerns and lack of awareness of online banking. Cleaver (1999) reports an academic study that concluded that older users prefer internet sites that do not demand complicated manipulation of software and hyperlinks the equipment, simply in order to browse. They appreciate functions that make on-line navigation easier and more convenient; for instance, simple, clear, and polite messages. On the other hand, other studies have shown that older people want the same things as users in general: a site that is easy to use, fast, clear, and secure. On the whole, it seems that the expert majority's opinion is that older people need separate internet sites, or at least modifications of existing ones (Judd, 2000), incorporating for instance larger font sizes and simpler graphics.

## **Security and privacy**

Security in the form of keeping customer safe from an invasion of their privacy, affects trust and satisfaction. If company wish to maintain customer trust, they need to keep their promises regarding security and privacy. Since security is closely related to trust, violations of security norms may backfire in terms of losing customers and negative word-of mouth. Security perceptions are defined

as “the subjective probability with which consumers believe that their private information will not be viewed, store and manipulated during transit and storage by inappropriate parties in a manner consistent with their confident expectations” (Pavlou 2001).

Now day’s uptake of EC applications in the banking industry is very slow only because of security and data confidentiality issues have been a major barrier. The banking sector was reluctant to use e-commerce applications as they felt that transactions conducted electronically were open to hackers and viruses, which are beyond their control. As well as convinced that online services are a mixture of customer insecurities, technology investment costs and a lack of market-readiness have all conspired to make e-banking ‘unattractive’ (Abdulwahed and Yaqoub, 2006). Perceived risk was one of the major factors affecting consumer adoption, as well as customer satisfaction, of online banking services (Polatoglu and Ekin, 2001). Perceived risk usually arises from uncertainty. Howcroft et. al., (2002) the principal characteristics that inhibit online banking adoption are security and privacy. An interview held on web security and showed four screen shots of a browser connecting to a website and asked participants to state if the connection was secure or not secure and to affirm the motivating factor for their appraisal. It was discovered that about 72 participants cannot tell if a connection is secure (Friedman et. al., 2002).

In Malaysia it is found that security is main barrier to e-commerce expansion. Security is perhaps the most feared problem on the internet. Banks and customers take a very high risk by dealing electronically (Mukti, 2000; Chung and Paynter, 2002). Similarly, (Nahar et al., 2000) describe, that IT manger contributed to the discussion, by saying, “security implementation over the internet is still considered as a big risk by many financial organizations that are skeptical about the technologies available”. He added, “However, with the introduction of new technologies such as SSL, digital signature, encryption, firewalls, PKI infrastructure, etc. internet security can be resolved, but it will take some time”. It is noted that although consumer’s confidence in their bank was strong, yet their confidence in the technology was weak (Roboff and Charles, 1998). Today’s consumers are increasingly more concerned about security and privacy issues (Howcroft et al., 2002). Dr. David Chaum, CEO of DigiCash said that security is simply the protection of interests. People want to protect their own money and bank their own exposure. The role of government is to maintain the integrity of and confidence in the whole system. With electronic cash, just as with paper cash today, it will be the responsibility of government to protect against systemic risk. This is a serious role that cannot be left to the micro-economic interests of commercial organizations.

Ganesan and Vivekanandan (2009) described a secured hybrid architecture model for the internet banking using Hyperelliptic curve cryptosystem and MD5 is described. Information about financial institutions, their customers, and their transactions are, by necessity, extremely sensitive; thus, doing business via a public network introduces new challenges for security and trustworthiness. Given the open nature of the Internet, transaction security is likely to emerge as the biggest concern among the e-bank’s account holders. The rapid growth in account hijacking and online fraud are on the rise. The negative publicity damages consumer trust in the online service.

Since personal and financial information can be intercepted and used for fraudulent purposes, online investing involves greater security concerns than conventional trading; users need a sense of security when conducting financial transactions, and it is still one of the major barriers to e-commerce growth (Lee and Turban, 2002). Perceived security was defined as a threat that creates a circumstance, condition, or event with the potential to cause economic hardship to data or network resources in the form of destruction, disclosures, and modification of data, denial of service, and/or fraud, waste and abuse (Kalakota and Whinston, 1997). Security, which involves the use of technical advancements like cryptography, digital signature and certificates aimed at protecting users from risk of fraud, hacking or “phishing”, has a positive influence on the intention to purchase online (Lian and Lin, 2008).

Potential customers mentioned Internet security, online banking regulations, consumers’ privacy, and bank’s reputation as the most important future challenges of online banking adoption. (Aladwani, 2001). Indeed, in Aladwani’s (2001) study of online banking, potential customers ranked Internet security and customers’ privacy as the most important future challenges that banks are facing. Perceived usefulness, perceived Web security has a strong and direct effect on acceptance of internet banking, too. A high level of perceived risk is considered to be a barrier to propagation of new innovations (Ostlund, 1974). Influenced by the imagination-capturing stories of hackers, customers may fear that an unauthorized party will gain access to their online account and serious financial implications will follow. The survey by White and Nteli (2004) found that UK consumers ranked the security of bank’s website as the most important attribute of internet banking service quality. This widespread anxiety is vividly illustrated by the results of Sathye (1999), who reported that three-quarters of Australian respondents expressed security concerns with regard to electronic banking. Overall, the literature appears to be unequivocal in its finding that the level of perceived risk is negatively related to the attitude towards banking on the World Wide Web (Black et al., 2001; Rotchanakitumnuai and Spence, 2003; Singh, 2004; Lee et al., 2005 and Gerrard et al., 2006). For this reason, this study uses perceived security as a predictor of customer acceptance.

A majority of studies highlight the fact that “security” is the biggest single concern for customers when faced with the decision to use internet banking. Security has always been an issue, but its scope has changed from mere doubts about the privacy of personal information to worries of financial loss (Sayar and Wolfe, 2007). White and Nteli (2004) find that “security” is the most important attribute for UK internet banking customers. It is followed by “responsiveness of service delivery (speed and timeliness)”, “ease of use”, “credibility of the bank”, and “product variety”. Akinci et al. (2004) find that the selection of an internet banking service provider is effected by security, reliability and privacy. Security, which involves protecting users from the risk of fraud and financial loss, has been another important issue in safe use of the internet when conducting financial transactions in Saudi Arabia (Sohail and Shaikh, 2007).

## Research Gap

The review of literature suggest that most of the studies have been done on security and privacy issue in countries like Australia (Sathye, 1999), Malaysia (Mukti, 2000; Chung and Paynter, 2002;

Sohail and Shanmugham 2004), Singapore (Gerrard and Cunningham, 2003a, 2006b), Turkey vs. UK (Sayar and Wolfe, 2007) and Saudi Arabia (Sohail and Shaikh, 2007). Much work has not been done in India with regard to these issues. The present study intends to know the customers perception on security and privacy issues in Indian context.

## **Methodology: Design and Procedure**

### **Preparing the Questionnaire**

The method found most suitable to gather data to support this study was the questionnaire for the following reasons:

1. The need to collect uniform data concerning the opinions of mature banking customers in India.
2. The need to collect data in a simplified and fast manner due to the time constraint.

A questionnaire form was made by the researchers consisting of 20 questions about the respondents and their willingness to conduct online banking. The questions were focused on the extent to which mature people use the Internet and purchase items using online methods. Following, respondents were asked if they were aware of online banking and whether they were willing to experience it had their banks provided sufficient support.

### **Sample**

The survey instrument used in this study was a structured questionnaire for the empirical study. The questionnaire was made up the dimension which measures the acceptance of online banking among Indian mature customers. The variables were measures using multiple items. All of the scale items represented in the survey instrument utilizing a five-point categorical rating scale. The anchors used included: a) 1= strongly disagree, b) 2= disagree, c) 3= neither agree nor disagree, d) 4= agree, e) 5= strongly agree. The data obtained responses from adults employed in the town area. The total number of useable responses was 117.

## **Results and Findings**

### **Demographic characteristics of respondents**

The descriptive statistics of the respondents' demographic characteristics were analyzed and presented in Table 1. Of the 117 respondents, 76.6% were male and 24.3% were female; 55.5% were in the 35-45 age group, 33% were 46-45 in age, 8.7% were 56-65 in age and only 3.5% were more than 65. Other demographic details can be found in Table 1.

Regarding Internet use, half of the participants pointed that they used the Internet "very often", 33% stated they used it sometimes, 17% admitted they rarely turn to the Internet. When respondents were asked what purpose they use the Internet for, 57% said they use it for research, 27% for entertainment and communication and only 16% for online purchasing.

<i>Demographic Variables</i>	<i>Categories</i>	<i>No. of respondents</i>
<i>Gender</i>	<i>Male</i>	89 (76.6)
	<i>Female</i>	28 (24.3)
<i>Age (in years)</i>	<i>35-45</i>	65 (55.5)
	<i>46-55</i>	38 (33.0)
	<i>56-65</i>	10 (8.7)
	<i>More than 65</i>	4 (3.5)
<i>Qualification</i>	<i>Up to 12</i>	7 (6.1)
	<i>Graduate</i>	19 (16.5)
	<i>Masters</i>	72 (61.5)
	<i>Professional</i>	19 (16.5)
<i>Income (in month)</i>	<i>Less than 15000</i>	10 (8.7)
	<i>15001-30000</i>	36 (16.5)
	<i>30001-45000</i>	58 (49.6)
	<i>More than 45000</i>	13 (11.3)
<i>Level of computer literacy</i>	<i>Expert</i>	10 (8.7)
	<i>Advanced</i>	45 (39.1)
	<i>Beginners</i>	57 (48.7)
	<i>Don't know how to operate computer</i>	5 (4.3)
<i>Preferred methods of performing banking transactions</i>	<i>ATMs</i>	40 (34.8)
	<i>Visit bank</i>	54 (46.1)
	<i>Telephone</i>	8 (7.0)
	<i>Online banking</i>	15 (13.0)

Table1. Distribution of Mature customers on the basis of demographic factors

Source: Primary Data

Figures in parentheses show percentages

The respondents provided the following reasons to justify why they seldom conduct transactions online:

1. Lack of security.
2. Avoiding the risk of not getting what they want.
3. They trusted the supplier more when there is face-to-face interaction.

Respondents were also asked to choose the preferred payment method when conducting transactions on the Internet. 45.3% thought that visit bank is most suitable and safe mode to withdraw cash. Online ATMs cards were the best in the view of 34.8% of the audience. Overall most of the population of India prefers branch banking it was mainly because, due to company's rules, it's not allowed as more as security and privacy concern.

Perhaps the most important questions the questionnaire contained were those relating to the research hypotheses. The respondents were first asked whether they agreed that the Internet was secure for conducting transactions.

<i>Opinion</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Strongly Agree</i>	20	17.1
<i>Agree</i>	14	12.0
<i>Neither agree nor disagree</i>	25	21.4
<i>Disagree</i>	19	16.2
<i>Strongly Disagree</i>	39	33.3
<i>Total</i>	117	100

*Table2. Online banking secure for conducting transaction*

As it appears, 29.1% generally agreed to the statement, 21.4% were indifferent in opinion and 49.5% did not agree. See table 2.

Although 29.1% of the participants pointed Internet is safe for transactions, but 49.5% participant says that internet banking is not safe and secure for the financial transaction. They are afraid about account security, hacking and unauthorized access. The first hypothesis is therefore confirmed.

H1: Mature customers generally believe that the Internet is not secure for conducting online transactions.

The respondents asked whether they agreed to privacy of their account in online banking or not.

Every respondent have different opinion about privacy of online banking which is given below;

<i>Opinion</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Strongly Agree</i>	19	16.2
<i>Agree</i>	24	20.5
<i>Neither agree nor disagree</i>	17	14.5
<i>Disagree</i>	29	24.8
<i>Strongly Disagree</i>	28	23.9
<i>Total</i>	117	100

*Table3. Online banking is provide more privacy than offline banking*

As same as the opinion of the participants regarding privacy of the online banking. And from survey it was found that 36.7% generally agreed to the statement, 14.5% were indifferent opinion and 48.7% did not agreed. See Table 3.

So 36.7% participants pointed online banking provides more privacy of the account, but 48.7% participants says that there are more chances of fraud in the online banking in comparison to offline



banking. Customers are very concern about privacy of online banking. The second hypothesis is therefore confirmed.

H2. Mature customers do not believe that the online banking make private their financial information.

Now day's banks are not put any extra effort to increase awareness about online banking among Indian customers. Through the survey it is found that most of the customers are disagree regarding awareness about online banking, which is given below;

Following, they were asked whether the banks they deal with put considerable effort to educate their customers about online banking. Only 27.3% agreed their banks help in increasing awareness on online banking; 61.5% disagreed while 11.1% were indifferent. See table 4.

<i>Opinion</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Strongly Agree</i>	9	8.5%
<i>Agree</i>	22	18.8%
<i>Neither agree nor disagree</i>	13	11.1%
<i>Disagree</i>	32	26.5%
<i>Strongly Disagree</i>	41	35.0%
<i>Total</i>	117	100%

*Table4. My banks put more effort to educate customer about online banking*

Unfortunately, 27.3% agreement is not a very promising statistic, especially when comparing it with 61.5% disagreement. Banks should adopt strategies by which they can increase awareness of online banking among customers of banks. All banks must bear in mind that without increasing customer awareness on online banking, it can never succeed. According to the findings the second hypothesis is again confirmed.

<i>Opinion</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Strongly Agree</i>	49	41.9
<i>Agree</i>	35	29.9
<i>Neither agree nor disagree</i>	19	16.2
<i>Disagree</i>	14	12.0
<i>Strongly Disagree</i>	0	0
<i>Total</i>	117	100

*Table5. I always use online banking if banks provide me necessary guidance and advice*

H3: Banks do not put considerable effort in increasing their customers' awareness on online banking.

Subsequently, the audience was asked if they are really willing to conduct Online Banking if their banks provided enough support

In spite of the security concerns mentioned earlier, those that agreed to the idea of conducting online banking reached 71.8%. Only 12% disagreed and 16.2% were indifferent. See table 5.

Consequently, this research's findings confirm the third hypothesis.

*H4. Mature customers would adopt online banking if they were educated more about it and if they acknowledged the convenience it provides.*

## Discussion

The purpose of this study is to investigate the acceptance of online banking among those customers who are the more than 35 age group. Specifically, the study postulated the affect of security and privacy issue in the acceptance of online banking in India.

The current investigation has shown, the reason why more than half of the respondents were between the age of 35 and 40 is that this age category was more accessible in the work environment. Few people over the age of 50 participated either because they were not aware of online banking, or they were not interested in it.

Even though 40% of the audience believed Internet is not secure for transactions, only 16% actually purchased products online. The majority of the participants use the Internet for research purposes or entertainment. This implies that their experience with transactions and Internet security in turn, is very modest. Indeed, their concerns regarding online transaction security is mostly due to spreading stories of credit card fraud and hacking and others. These concerns have little value in reality and may be easily dealt with.

For example, Koufaris and Hampton-Sosa (2004) also demonstrated that perceived security control of the site strongly influenced acceptance of online banking by customers. If the customers are less concerned about unauthorized use of or illegal access to their personal and financial data by third parties, they will have greater influence the willingness to use of online banking, which in turn will lead to higher acceptance to it. Thus, banks should improve their web security features in order to enhance the customer's acceptance.

Surprisingly, perceived privacy was not a determinant of perceived trust. Since these security characteristics guarantee almost total privacy, the relative importance of privacy concerns for these users is lower. Thus, Belanger et al. (2002) argued that customers generally understand the concept of security better than privacy because security is a more concrete concept, and they also showed that security features were more important than privacy statements. Kim et al. (2008) empirically showed that security protection mechanisms are more important in consumers' behavior than privacy. Pavlou and Chellappa (2001) found that the influence of perceived privacy was weak in comparison with the strong influence of perceived security on acceptance.

Interestingly, online banking has a very promising future in the eyes of mature customers. This is greatly emphasized by the fact that 84% of the participants declared they were willing to try experiencing it once their banks helped them and provided them with necessary guidance.

## **Conclusion and Recommendations**

In a country like India, there is need for providing better and customized services to the customers. Banks must be concerned the attitudes of mature customers with regard to acceptance of online banking. It is shows that mature customers are more reluctant to join new technologies or methods that might contain little risk. It's also important to note that some mature customers are interested in online banking; however, they do not posses the necessary computer literacy to conduct it. In addition banks should design the website to concern security and privacy issues.

The recommendations to the banks are that they have to increase the level of trust between banks' website and customers. Because customer perception on security and privacy aspect have been seen in the literature. The importance of security and privacy for the acceptance of internet banking has been noted in many banks study and found that people have weak understanding of internet banking, although they are aware about risk. Banks noted that although consumer confidence in their bank was strong yet their confidence in the technology was weak through many studies. It is clear those mature customers are ready to adopt online banking if banks take necessary action. There are following strategies should be applied by banks.

- Banks should ensure that online banking is safe and secure for financial transaction like as traditional banking.
- Banks should organize seminar and conference to educate the customer regarding uses of online banking as well as security and privacy of their accounts.
- Some elder customers are hindered by lack of computer skills. They need to be educated on basic skills required to conduct online banking.
- Banks must emphasize the convenience that online banking can provide to elder people, such as avoiding long queue, in order to motivate them to use it.
- Banks must emphasize the cost saving that online can provide to the elder people, such as reduce transaction cost by use of online banking.

Mature customer always prefers advanced technology but sometimes lack of knowledge they are unable to access such technologies. The fact that people have positive perceptions about online banking should be treated with great value. This is because one bad experience can result in customer discontinuation of the E-banking service (Jun & Cai, 2001).

## **Limitation and Future Research**

This research serves as an initial step in exploring customers' views and expectations on online banking. However, it is limited by the following factors:

- The sample was distributed randomly over mature people from the working environment. It did not include mature people who are less educated or those who never used computers or accessed the Internet.
- The sample is comprised with 117 people. Future research requires a larger sample for the purpose of higher accuracy.
- This research focused to a high degree on acceptance of online banking among Indian customers and opinion regarding security and privacy issues. Further research is required to investigate issues related to online banking in deeper manner and what strategies should adopt by banks by which they can enhance level of e-satisfaction and e-loyalty with respect to online banking.

## Biography

**Saroj K. Datta:** Prof. Datta, a Mechanical Engineer graduated from Jadavpur University, with a place in their Roll of Honour, before going on to take his Post Graduate degree in Management from Indian Institute of Management Calcutta. Prof. Datta has done his Ph.D. in Management from the University of Burdwan. He has a rich industrial experience of more than 25 years particularly in the area of marketing and execution of pollution control projects, having worked for the blue-chip multinationals and Indian companies like Gibbs & Hills. Inc., ACC-Vickers-Babcock Ltd., Flakt India Ltd., GEC of India Ltd. and Orient Paper & Industries. He has been actively involved in teaching, consultancy and research in the area of Marketing & Strategic Management for last thirteen years. His present area of research interest includes Consumer Behavior, Business Process Reengineering, Knowledge Management, Leadership, etc. Prof. Datta has also authored books titled "Marketing Sense", "Marketing Management" & "Strategic Management" (in print) as well as developed CDs on "Marketing Management" and "CRM" for eLearning programme.

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## ENTREPRENEURIAL ACTIVITY OF ACADEMICS TO EXPLOIT TECHNOLOGY TRANSFER: AN EMPIRICAL TEST

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### Introduction

The commercialization of scientific and technological knowledge is increasingly considered one of the most important tool for developing and sustaining regional economic growth and also at the core of many national and local economic policies, including Europe, North America and increasingly Asia (Kroll and Liefner, 2008; Rasmussen, 2008; Shane, 2004).

The creation and consolidation of knowledge-based regional innovation systems are the result of initiatives that took decades to reach fruition.

In the Triple helix model (Etzkowitz, 2008) was integrate the two traditional starting points of science and technology policy: government and industry, with a new element: the university.

Focusing on the process of creating, discovering, and exploiting technological opportunities created by university research has been a remarkable increasing interest in Academic entrepreneurship as a field of research.

There is a notorious debate in the literature about the entrepreneurial activity in University and his role in the develop of local economic develop.

University should promote a most significant efforts towards technology transfer and the creation of new science-based spin-off firms, they should increase their linkages with industrial firms via research contracts directly financed by the industry, and they should promote the diffusion of patented technologies by assigning both exclusive and non-exclusive licenses.

In sum, universities should adopt a more “entrepreneurial” paradigm, in which teaching and research, both applied and basic, and entrepreneurial and scholastic interests are contemporarily taken into account and promoted.

Thursby et al. (2001) found that the majority of academic inventions commercialized through spin-offs were at an early stage of development when they were licensed and that inventor involvement in the process was important for further development once licenses were executed.

The creation of a new venture by academics can be described as a process in which they are involved in both the invention and the commercial exploitation phase.

The technology transfer process is an extended course of actions that start with opportunity identification that is clearly an intentional process (Krueger et al., 2000).

Moreover technology transfer process involves different groups of interest.

According to the Association of University Technology Managers (2004), federal government in the US now provides more than 27.7 dollars billion annually to university researchers to conduct scientific research.

This continuing investment expands human knowledge supporting the building of relationships between the different actors involved in the creation of a new business and helps to educate the next generation of science and technology leaders.

There is wide literature about entrepreneurship in University and the numerous theoretical works investigate the determinants and consequences of university spinoff activity but even though, the most important gap might concern robust empirical studies that investigate this important phenomenon at the individual level (Prodan, I., Drnovsek, M. 2010).

We investigate the specific determinants that characterize of academics' entrepreneurial intention within University context analysing this emergence at individual level.

We use empirical data from PhD students employed in the sciences departments of the faculties of one University in Italy.

The paper is structured as follows. We first review prior literature on academic entrepreneurial intention (AEI) that is one of the key that can explain the entrepreneurial activity at individual level and then present the model grounded in social cognitive theory and hypotheses.

### **The role of intention in entrepreneurial activity**

The entrepreneurial activity of universities has been explained by a rise in patenting, licensing and the creation of spin-off companies among academic researchers (Wright et al., 2007; Siegel et al., 2003). The evidence that entrepreneurial performance differs among academics has developed the need to understand the factors that differentiate academic researchers in terms of their inclination to engage in knowledge transfer activities and, more particularly, to become academic entrepreneurs (Bercovitz and Feldman, 2008; Hoyer and Pries, 2009).

Ventures get started and develop through initial stages largely based on the vision, goals, and motivations of individuals. New organizations are the direct outcome of these individuals' intention and consequent actions, moderated or influenced by environmental conditions. (Bird, 1988).

Much prior research about entrepreneurial intention analyzed different populations of potential entrepreneurs in order to understand their decision-making processes with respect to becoming entrepreneurs.



However, rather less is known about the factors that contribute to the development of the entrepreneurial skills among academic scientists, and particularly to the skills necessary for opportunity identification and opportunity exploitation.

Intention in the psychological literature, have proven the best predictor of planned behavior (Ajzen, 1991), particularly when that behavior is rare, hard to observe, or involves unpredictable time lags (Krueger et al., 2000).

Recognizing that starting a business is an intentional act (Krueger et al., 2000) and entrepreneurship is a planned behaviour (Bird 1988; Katz and Gartner 1988) entrepreneurial intention's model had substantial implications for intentionality research in entrepreneurship (Krueger et al., 2000) and entrepreneurial intention can be seen as an accurate predictor of planned behavior towards starting a new business (Fishbein and Ajzen, 1975).

Inside the University the PhD students are potential academic entrepreneurs, they have a critical role in the identification of the best way for commercialize the results of their research to improve the technology transfer process. This kind of process is a consequence of two broad categories of determinants: (1) individuals with certain characteristics, abilities, and perceptions who find themselves in (2) a context which is conducive to venturing (Bird,1988).

Intention is a state of mind directing a person's attention, experience, and behavior toward a specific object or method of behaving.

"Since much of human behavior appears to be under volitional control, . . . the best single predictor of an individual's behavior will be a measure of his intention to perform that behavior" (Fishbein & Ajzen,1975).

The individual behavior is also a direct consequence of different environmental characteristics. There are different determinants of this University context that could affect the potential entrepreneurs' intention of starting a new firms for commercialize the invention.

This model acknowledges that entrepreneurial event is a result of a dynamic interaction between individual and environment (Shane and Venkataraman, 2000),which is in agreement to social cognitive perspective of entrepreneurship.

Using an existing framework of planned behavior in psychology and intentionality in entrepreneurship, we analyze the determinants of academic entrepreneurial intention (AEI) and testing the validity of a theoretical model (Prodan and Drnovsek, 2010).

Fig. 1 presents our proposed model of academic-entrepreneurial intention that come from entrepreneurial intention model originally proposed by Bird (1988) and Krueger (1993) and that we adapt in the Academic context from Prodan and Drnovsek, (2010).

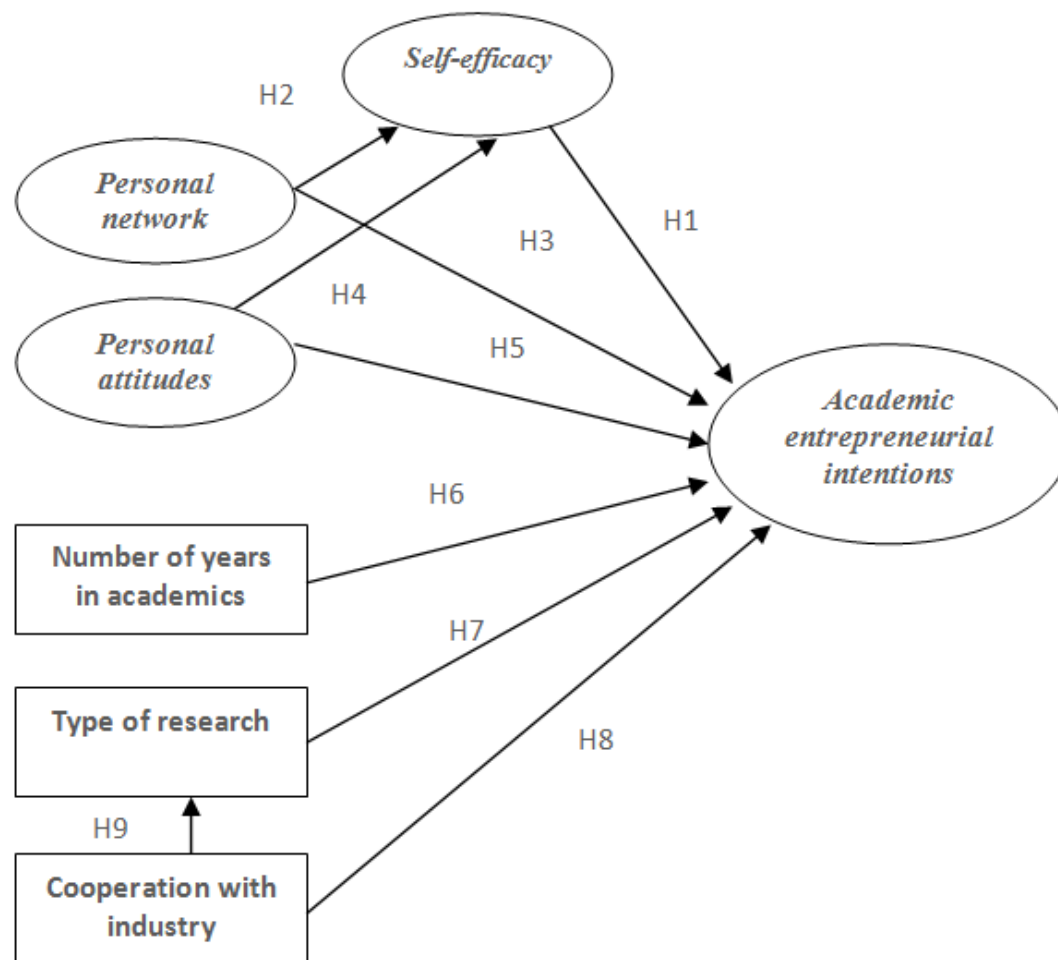


Fig.1 Model

The theory of Planned Behavior (Ajzen, 1991) identifies three attitudinal antecedents of intention.

The first is perceived behavioral control. It reflects the perceptions that the behavior is personally controllable. Perceived behavioral control is dependent on an individual's perceived ability to execute the intended behavior of entering entrepreneurship. The PBC could be expressed through entrepreneurial self-efficacy, these are, therefore, concepts quite similar (SE) (Bandura, 1997).

The second concerns Personal Attitude toward outcomes of the behavior and in the economic context toward the desirability of an entrepreneurial career (that is expressed through perceived role models) (Chen et al., 1998).

It includes not only affective (I like it, it is attractive), but also evaluative considerations (it has advantages) about being an entrepreneur. (Ajzen, 2001; Autio et al., 2001).

The third comprehends all those perceived social norms. They consider the individual perception of what connected and close people think about performing a particular behavior.

Empirically, we must identify the most important social influences (for example, parents, significant other, friends) including any "role model" or "mentor" (Krueger, 2000). Research into the personal

networks of entrepreneurs often focuses on flows of resources and information. Some studies address also social norms and values provided by network members (Shapero, 1982).

## **Determinants of academic entrepreneurial intention**

### **Entrepreneurial self-efficacy and academic-entrepreneurial intention**

The self-efficacy (SE) is a concept regarding people's beliefs in their abilities to mobilize the motivations, cognitive resources, and courses of action needed to exercise control over events in their lives. The self-efficacy perspective is one determinant of Planned Behavior for the study of entrepreneurship (Chen et al., 1998) that could explain.

The entrepreneurial self-efficacy concern about individuals' beliefs regarding their capabilities for achieve goals and attaining success. The concept of self-efficacy reflects on the confidence that he or she has with their ability for successfully performing the roles and tasks of an entrepreneur (Boyd and Vozikis, 1994; Scherer et al., 1989).

There numbers of theoretical works that studied different populations of entrepreneurs, and entrepreneurial self-efficacy has been positively related to the intention to set up one's own business.

There are also a several studies that considered the potential population of entrepreneurs (Chen et al. 1998; Zhao et al.'s 2005) with self- efficacy positive related to intention.

Usually the PhD. Students, also if they work in the laboratories, they need business skills that are necessities when you have the idea to commercialize and exploit their inventions.

The ability to connect specific knowledge and commercial opportunity requires a set of skills, aptitudes, insights, and circumstances that are distributed neither uniformly nor widely (Venkataraman, 1997).

The perceived conviction of performing specific roles and tasks in entrepreneurship is represented by the entrepreneurial self- efficacy construct. Thus, this leads us to propose the following:

**Hypothesis H1:** Entrepreneurial self-efficacy is positively related to academic-entrepreneurial intention.

### **The relationship between personal network and self-efficacy**

Prior research addressed to the network literature highlighting the importance of personal ties to successful entrepreneurship (Birley, 1985). The venture creation from University is process that involves different and numerous actors (venture capitalist, business angels, and colleagues) and resources both.

The Academic and also PhD students with a strong business networks can benefit from opportunity identification, access to important information's and resources that cannot otherwise be obtained, timing, and receiving positive recommendations and evaluation.

Landry et al.'s (2006) explored the social capital assets of researchers for predict the likelihood of them creating spin-offs. In addition, Personal Networks (PN) have been found to be an important predictor of entrepreneurial self- efficacy (Ozgen and Baron, 2007) reinforcing their beliefs or their abilities to mobilize the motivations, cognitive resources, and courses of action. Building on research findings on the importance of personal networks in the entrepreneurship process, we put forward the following:

**Hypothesis H2:** Academic's personal networks are positively related to the entrepreneurial self-efficacy.

**Hypothesis H3:** Academic's personal networks are positively related to the academic-entrepreneurial intention.

### **Personal attitudes as a predictor of Academic-entrepreneurial intention**

According to theory of Planned behavior, Personal attitudes (PA) was demonstrated to be a valid antecedent for intention. PA refers to the degree to which the individual holds a positive or negative personal valuation about being an entrepreneur (Ajzen, 2001; Autio et al., 2001; Kolvereid, 1996b). It includes not only affective (I like it, it is attractive), but also evaluative considerations (it has advantages) (Liñán, F. and Chen, Y.W. 2009).

The exploitation of new ventures depends of the entrepreneurial culture and entrepreneurship experience in successful spin-off companies is crucial for potential academic entrepreneurs. In addition, faculty members can offer moral and material support to colleagues who are trying to establish a company (Etzkowitz, 1998).

The Academics that decided to their own firms are influenced from their perception about their potentiality to become entrepreneurs and this kind of perception depends also from how they feel confident in the context they are working.

On the basis of these findings, we argue that Personal attitudes are directly related to academic-entrepreneurial intention and also to entrepreneurial self-efficacy; therefore, we posit the following:

**Hypothesis H4:** The Personal attitudes are positively related to the entrepreneurial self-efficacy.

**Hypothesis H5:** The Personal Attitudes are positively related to the intensity of academic-entrepreneurial intention.

**Number of years spent at the academic institution and academic-entrepreneurial intention**

Prior researches about age distribution of entrepreneurs show as younger individuals are more active in new firm creation than are older people. It depends from some reasons, for example for the risk aversion that rise from the age increasing or for the major stability of the career for older people. Because entrepreneurship activity involves substantial inherent risk, an academic may expose his or her career path by creating spin-offs and reducing other research responsibilities (Lee and Gaertner, 1994).

The younger academic (students, PhD. students and lecture) are often encouraged from their Professor to embark in a new experience creating spin-off.

The development of Silicon Valley can itself be partly attributed to the actions of scientists who left their industrial or academic labs. It was Professor Frederick Terman who convinced and supported two of his students, Hewlett and Packard, to start an entrepreneurial initiative in Palo Alto (Saxenian, 1996; Zagnoli, 1991).

Thus, the number of years spent at the academic institution (UY) (which highly correlates with age) is a proxy for an academic's scientific seniority, which should negatively affect academic-entrepreneurial intention. Thus, we propose the following hypothesis:

**Hypothesis H6:** The number of years spent at the academic institution is negatively related to academic-entrepreneurial intention.

**Type of research, cooperation with industry and academic-entrepreneurial intention**

Knowledge is continuously been produced under different forms. Codified knowledge is produced mainly in research labs, published in journals and broadly diffused; tacit knowledge is produced in research labs too, but not only there: it is also generated at plant level through learning-by-doing processes, and in a number of other industrial contexts. Nonetheless, even if knowledge is produced in many different places by various organizations, (large) firms and public research labs are (at present) the most important producers (Chiesa, Piccaluga, 2000).

Applied research promises a more immediate return from the development of marketable products, which is extremely important in the technology transfer process.

Academics devoted to applied research generally pay much attention to industry requirements and to understanding the potential for market applications of academic research results (Grandi and Grimaldi, 2005), which could help them establish their own company or run their company more efficiently.

Rahm (1994a) investigate the relationship between Academics and industry and discovered that Academics that interact with industry are slightly more likely than other researchers to feel pressure to become involved in applied industry research efforts because they sense that grant agencies, as well as university departments or central administration look favorably on such activity.

In according of the existing evidence on the importance of research focus in the formation of entrepreneurial intention, we propose the following:

**Hypothesis Hp7:** Prevalence of applied research is positively related to AEI.

**Hypothesis Hp8:** Cooperation with industry is positively related to AEI.

**Hypothesis Hp9:** Cooperation with the industry is positively related to applied research (type of research).

## Method

### Sample

This research is based on a sampling frame of PhD. students, which are from sciences department and research area of University d'Annunzio in Italy.

We sent a questionnaire of 729 PhD. students of which 85 responded at our survey, with a response rate of 12%. The data collected was used to measure all the variables of our model.

### Variables measurement

Academic entrepreneurial intention was measured with six items with five point Likert scale, asking the respondents to indicate how they were interested to start their business, how they are determinate (Chen et al., 1998), how they consider to become an entrepreneur (Kassicieh et al., 1997), to indicate the possibility that they start their business in the next five years and in the next two years, and at the list to indicate which activities they had started to start their business (Gatewood et al., 1995).

Considering self-efficacy, respondent were asked to rate their capacity to perform firm's start-up activities, we used six items on seven point Likert scale (Kolvereid, 1996b).

Personal attitude was measured through an aggregate scale. According with Ajzen (2001) we measure attitudes as an aggregate measure. The respondents were asked to choose on seven point Likert scale, how much they thought that being an entrepreneur implies more advantages, that a career as entrepreneur is attractive, that they'll like to start new firm, about satisfaction, and if they'll choose to be entrepreneur. In order to measure how the scientists interact with their community we measured their personal network with three items.

The first item it's about the average number of hours per week that the respondents spent his time to maintaining contacts, the second item measure the number of hours per week to develop new contacts, and the third the total number of the people with respondents discuss business.

The others variables referred more to university context, such as the type of research, the number of years spent at the academic institution, the cooperation with industry.

Type of research was measured by a ratio between the numbers of applied research on the total number that scientists work per week (Greve, 1995).

This measure it's relevant to better understand if there are some differences about theoretical and applied research.

We assume also that the number of years spent at the academic institution will be important to evaluate, then we measured the total years of employment in university.

Cooperation with industries was measured by the number of hour for week that respondents spent to work at industry-ordered projects, and as the percentage of industry founding.

### **Structural equation modeling**

To verify our hypothesis we used structural equation modeling testing simultaneity both the measurement model and the path model (Jöreskog and Long, 1993). LISREL was used to estimate the causal linkage between a set of variables, observed and latents variables, to test the model in Italian context.

### **Analysis and results**

The correlation and descriptive statistics are displayed in table 2. To test the hypothesis in our model, we analyze the paths between academic entrepreneurial intention, self-efficacy, personal attitude, personal networks and other academic variables.

For each hypothesized relationships, we calculated path coefficients and test statistical significance.

Using LISREL, the model that we are testing produced a chi-square of 216.17 (df=85;  $p<0.001$ ), the resulting model's goodness of fit indices indicated a fairly good fit (GFI=0.77, AGFI=0.75, NFI=0.70, CFI=0.74, RMSEA=0.08).

The results of the structural equation model are displayed below (Fig.2), and it shows all the hypothesis and results of the model test, within the unstandardized coefficients.

Hypothesis 1 is statistically significant and supported, coefficient ( $p<0.10$ ), then mean that entrepreneurial self-efficacy is positively related with academic entrepreneurial intention.

Hypothesis 2 is not statistically significant then we can't support the positive relationship between personal networks and self-efficacy.

Personal network is statistically positively related to academic entrepreneurial intention ( $p<0.10$ ), then we support hypothesis H3.

Personal attitude is statistically positively related to self-efficacy ( $p<0.001$ ), then our hypothesis H4 can be supported.

Hypothesis H5 it's also confirm in our model, in fact personal attitude is positively related to academic entrepreneurial intention ( $p<0.10$ ).

There is support for hypothesis H6 which demonstrate that the relationship between number of year spent in academics is negatively related to academic entrepreneurial intention ( $p < 0.001$ ).

Hypothesis H7 is statistically significant and supported ( $p < 0.01$ ), therefore type of research is positively related to academic entrepreneurial intention.

H8 isn't statistically significant then we can confirm that cooperation with industry is directly related to academic entrepreneurial intention. Hypothesis H9 is also confirmed, given that cooperation with industry is positively related with type of research ( $p < 0.05$ ).

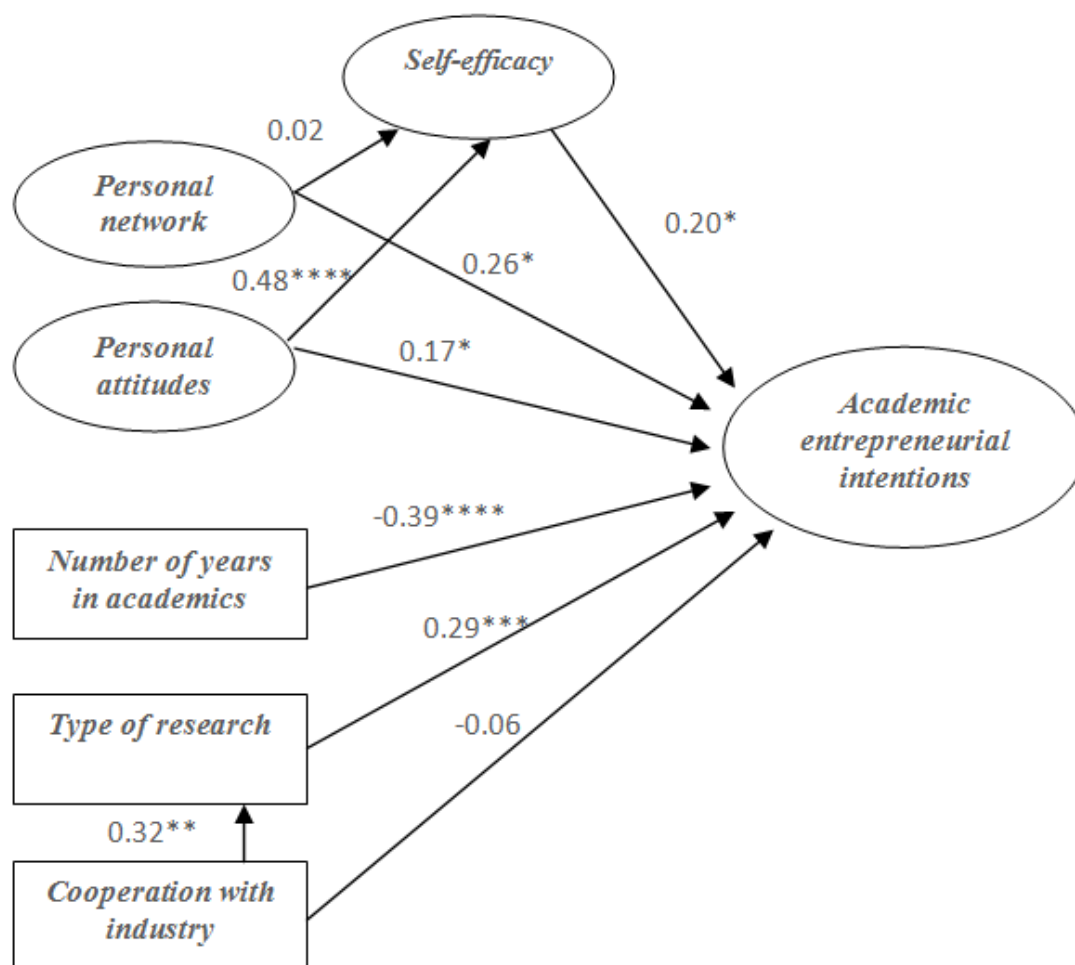


Fig. 2 Results of the model

## Conclusions, implications, limitations

Building on results of previous studies, this paper contributes to test the robustness of the model of academic entrepreneurial intention in sciences research area. In particular this paper analyzes the determinants of the academic entrepreneurial intention of PhD. students, investigating the best predictor of planned behavior.



We hypothesized that the different dimensions are related to academic entrepreneurial intention and we concentrate on the variables that can better explain the personal networks of “Academics”. We find that personal networks are straight related to academic entrepreneurial intention, and that “Academics” with these characteristics are more oriented in the commercialization of the results of their researches and in the new venture creation.

We can conclude that personal attitude has a very strong influence on the intention to act and the level of the intention. Davidsson (1995) also found that attitude strongly influenced the intention towards entrepreneurship.

<i>Hypothesis relationships</i>				
<i>Hypothesis</i>	<i>Variables</i>	<i>Path coefficients</i>	<i>p&lt;value</i>	<i>Results</i>
H1	<i>Entrepreneurial self-efficacy is positively related to academic-entrepreneurial intention</i>	0.20	0.10	Supported
H2	<i>Academic's personal networks are positively related to the entrepreneurial self-efficacy.</i>	0.02	-	Non Supported
H3	<i>Academic's personal networks are positively related to the academic-entrepreneurial intention.</i>	0.26	0.10	Supported
H4	<i>Personal attitude is positively related to self-efficacy</i>	0.48	0.001	Supported
H5	<i>The Personal Attitudes are positively related to the intensity of academic-entrepreneurial intention.</i>	0.17	0.10	Supported
H6	<i>The number of years spent at the academic institution is negatively related to academic-entrepreneurial intention</i>	-0.39	0.001	Supported
H7	<i>Prevalence of applied research is positively related to AEI.</i>	0.29	0.01	Supported
H8	<i>Cooperation with industry is positively related to AEI.</i>	-0.06	-	Non Supported
H9	<i>Cooperation with the industry is positively related to applied research (type of research).</i>	0.32	0.05	Supported

Table 1 – Standardized path estimates  
(n=85)

For the managerial practice, our findings can suggest that the Italian policy makers should consider the academics' intention to provide resources for stimulate the creation of new ventures. This research contributes also in entrepreneurship education field, to underline the orientation of PhD students about their beliefs in entrepreneurship as choice for their career.

Attitudes towards career alternatives are developed during ours study, so if a student is not fully aware of entrepreneurship as an alternative, he/she will never develop a positive attitude towards it.

Therefore if he/she will instead develop a positive attitude towards alternatives, they could be opened to see the entrepreneurial career as a valid option for their life.

Our findings demonstrate and confirm that academic entrepreneurial intention is negatively related to the number of years that academics spent in the university, and it's related to the type of research. The Italian scientists seem to don't agree with the necessity to start-up spinoff, and this is true if considering the increase of the age of academics. The "tower" of academics is a weakness in university Italian system, given that the low level of academic entrepreneurial intention don't bring forward the necessity to commercialize the results of their scientific researches. About the relationship with the cooperation with industry, our model can't explain the existence of direct relationship with the academic entrepreneurial intention, but this cooperation seems affect the type of research. For further researches it could be interesting to investigate how these variables can't affect directly the academic entrepreneurial intention.

Our paper is not without limits, the first one is that we can limit the analysis (in this first phase) just to one sample of PhD students from Italian university, and we would like to build a longitudinal database to check in different time, which characteristics the academic entrepreneurs should have, to allow a successful venture spinoff creation.

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	AEI	AEI	AEI	AEI	AEI	PA	PA	PA	PA	PA	SE	SE	SE	SE	SE	SE
AEI	1															
AEI	,827**	1														
AEI	,578**	,432**	1													
AEI	,669**	,629**	,493**	1												
AEI	,545**	,569**	,397**	,812**	1											
PA	,200	,161	,075	,223*	,117	1										
PA	,283**	,266*	,143	,181	,138	,590**	1									
PA	,208	,169	,154	,117	,169	,542**	,733**	1								
PA	,377**	,347**	,091	,172	,162	,541**	,743**	,723**	1							
PA	,208	,246*	,062	,137	,150	,583**	,748**	,716**	,738**	1						
SE	,065	,048	-,012	,144	,067	,244*	,175	,027	,100	,130	1					
SE	,148	,095	-,017	,104	,024	,438**	,580**	,476**	,535**	,510**	,251*	1				
SE	,138	,100	,052	,198	,136	,445**	,362**	,290**	,389**	,364**	,339**	,648**	1			
SE	,136	,074	-,062	,231*	,166	,290**	,095	,104	,243*	,140	,232*	,310**	,538**	1		
SE	,268*	,256*	,028	,215*	,066	,299**	,269*	,148	,338**	,231*	,097	,478**	,580**	,642**	1	
SE	,178	,114	,076	,052	-,006	,459**	,445**	,336**	,376**	,400**	,321**	,592**	,608**	,367**	,486**	1
PN	,260*	,211	,159	,301**	,374**	-,011	-,020	,110	,119	,071	-,012	-,056	,089	,072	,099	,068
PN	,215*	,166	,194	,274*	,257*	-,016	,148	,134	,197	,160	-,011	,018	,116	-,090	,070	,081
PN	,430**	,344**	,214*	,481**	,399**	,146	,150	,185	,126	-,033	,104	,181	,254*	,122	,135	,176
CI	-,027	-,155	-,070	-,011	-,001	,179	,061	,021	,052	-,051	,110	,006	,098	,126	,014	,017
CI	,090	-,009	,012	,163	,232*	,029	,018	,055	,016	-,043	,052	-,129	-,050	-,022	-,074	,085
TR	,210	,199	,037	,205	,294**	-,024	,110	,001	,149	,007	-,158	-,133	-,155	-,077	-,135	-,220*
UY	-,338**	-,361**	-,391**	-,262*	-,097	,052	,110	,032	-,051	-,039	,051	,097	,042	,110	-,045	,096

Table 2 – Correlations: \*\*\* Correlation is significant at the 0.01 level (2-tailed), \*\* at  $p < 0.05$  level, \* at  $p < 0.10$

## RESEARCH FRAMEWORK AND EMPIRICAL EVIDENCE OF SUSTAINABLE SUPPLY CHAIN

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### Abstract

The aim of this research is to conduct a review on the approaches used to assess different criteria on sustainability used by supply chains and to suggest a framework for a methodical approach that would be easy and practical in making complex sustainable assessments. A review was conducted on the present models that are used to examine sustainability within supply chains. A sample of 332 companies mainly from the manufacturing area was examined to determine what criteria they require for assessing sustainable issues amongst their supply chains. A quantitative study using factor analysis and multiple regression were used to analyse the data to determine the statistical significance of the attempted prediction. It was identified that corporate commitment to sustainability, corporate reporting and management systems are significant predictors for green procurement in supply chain management. This framework can be beneficial in implementing environmental sustainable assessments for supply chains. Much of the empirical research on supply chains has focused on business performance, while there is very little empirical work undertaken in the literature on sustainable supply chains. Sustainability within supply chains implies that businesses need to consider the economic, environmental and social impacts of their activities.

**Keywords:** Supply Chain, Sustainability, Corporate Commitment, Corporate Reporting, Management Systems

### Introduction

The concept of sustainability was developed in 1987 by the Brundtland Report. It highlighted the need for changes within our economic system and the way we produced and consumed goods and services. This has resulted in governments being concerned about the social, environmental and economic costs and benefits, especially in areas where hard and indisputable scientific evidence is lacking. This highlights a need to initiate alternative technologies that allow for changing lifestyles and patterns of consumption and development in order to meet sustainable changes.

This topic on sustainable development has been broadly defined by academics and environmental professionals, whilst it is a total concept that sets an agenda, it does not provide a blue print for action

(Willums, 1998). This has opened many avenues to the varying definitions. Similarly, businesses have been critical with the concept of sustainability and have come to a consensus as to how they would like to be seen as sustainable. It is reported from a business perspective that being sustainable can be interpreted in various ways. It could be seen as (1) a process of optimising resource use for the betterment of the environment, (2) investment in greener practices, and (3) institutional changes required for continuous environmental improvement. Although, there have been guidelines and operational company strategies aiming towards sustainable development, the underlying principle of sustainability is that it is a part of a complex system, which places no restrictions on how best businesses can achieve it.

Sustainability doesn't disregard the traditional management practices, but introduces a socio-economic facet that requires corporations to also consider the economic and social elements. The subject in question then is to recognise what criteria are required to evaluate a firm's sustainability and to what extent?

In other words, a manufacturer who procures resources from a supplier is faced with the problem of identifying the sustainable activities of their supply chains which acts in combination to influence their sustainable outcome. This means that businesses need to review their supply chain management right from the supplier's end to the consumer's end and use alternate measures for improving sustainability. Whilst much of the empirical research on supply chains has focused on business performance, there is very little empirical work undertaken in the literature on sustainable supply chains.

## Objectives

The intention of this research is to conduct a review on the approaches used to assess different criteria on sustainability used by supply chains and to suggest a framework for a methodical approach that would be easy and practical in making complex sustainable assessments. This framework will be useful to implement environmental sustainable assessments at any level.

The research has three broad objectives;

- To examine the scholarly literature together with the practices implemented by industry, institutions and policy makers for assessing sustainable supply chains. This will provide insight into the various models and sustainable literature.
- To analyse the environmental elements of sustainability that influence procurement in an organisation and to identify the best practices platform for approaching sustainability.
- To provide recommendations that will, potentially, perform a directive function by providing discourse and deliberation on underlying risks, opportunities and benefits when applied to supply chains on a case by case basis.

### **Importance of sustainable issues in supply chains:**

What we have so far witnessed is that industries are expected to exercise conscious efforts towards sustainable manufacturing. This incorporates corporate policies aimed at cleaner processes that reduce or eliminate waste, minimize energy consumption, and improve resource efficiency and operational safety (Wiessman and Sekutowski 1991). While these instruments have been used successfully to control certain environmental mishaps, the incidence of environmental wastes and resource consumption still remains substantial.

For a corporation to be sustainable, one could argue that there is a need for supply chains to also be sustainable. There are different ways supply chains can approach sustainability, one emerging from reactive activities or the other from proactive activities.

Reactive measures are largely due to governmental and legal regulations which are based on value judgments that necessitate political decisions which persuades a firm to take precaution or preventive measures lest suffer the consequences. The traditional methods of environmental protection, which emerged from the private sector, were through direct or command and control regulation. Proactive measures on the other hand involves a voluntary approach using environmental tools that consist of actions such as (Brophy, Netherwood, and Starkey 1995; Annandale et al. 2000): implementation of company environmental policies and environmental management systems, the use of product certification and life cycle analysis, extended producer responsibility, environmental accounting and environmental reporting. Nonetheless, both the reactive and proactive measures have impacts on the strategic direction the supply chain chooses to adopt (Ottman 1998).

However, the concern is that reactive and/or proactive measures may not be fully adequate to gauge how sustainable are supply chains. Past research have developed models which will be discussed in the following section.

### **Models**

Sustainability within supply chains would imply that businesses need to consider the economic, environmental and social impacts of their activities (Dyllick and Hockerts, 2002). Some of the traditional models used don't encompass the social impacts. The Sustainable Project Appraisal Routine (SPeAR) developed by Arup is a subjective instrument that uses substantiation obtained through the audit process. Although comprehensive in its approach with around 122 questions, covering both environmental and social factors it does have limitations due to the high complexity of questions which are site or company specific and is not attentive to the broader goals of the supply chain (Chard, 2007). Many supply chain categories has been identified; there are basically 16 forms of supply chains or networks in use (Gadde and Hakansson 2001).

Chard (2007) further examined models such as the Emissions Impact Tool (EIT). EIT and Resources and Energy Analysis Programme (REAP) was found to be lacking on considering social dimensions. GaBi on the other hand which is a modular Life Cycle Assessment (LCA) proprietary software package was more specific to environmental performance and impact. The Australian Procurement



and Construction Council (APCC) have developed a model based on key criteria or questions to provide direction on how an assessor might weigh up the level of commitment and performance of a contracted supplier (or respondent to a tender) to environmental and social sustainability. It contains the main key issues that examine sustainability such as: Systems for Environmental Management, Employment Practices, Corporate Social Responsibility, Greenhouse Gas Emissions, Commitment to sustainability and demonstrated sustainability improvements, Packaging, Transport and Logistics and Green Product Reporting. It does ask for evidence in terms of certification, policies and examples but is deficient in measurement issues and other relevant constructs.

The process involved in determining a sustainable supplier demand more characteristics than those in operational decisions. It is one of the most complex decisions as it involves evaluating the supplier's performance from different dimensions as well as the relationship issues. On the other hand, though it can comprise of many different functional activities, it should be treated as a single process (Harrison, A. and Hoek, van R., 2005). Whilst it is important to understand each of these models' benefits, it is, arguably, more important to understand that there will not be a holistic model based on a one size that fits all organisations.

### **Problem Identification**

In order to understand supply chain management, we need to consider how it has been defined. Stock and Boyer (2009: p.5) comprehensive research on developing a consensus on the definition of supply chain management identified six common themes and subthemes that appeared repeatedly:

- material/physical, services, finances and information flows;
- networks of relationships (both internal and external);
- value creation;
- creates efficiencies;
- customer satisfaction; and
- constituents or component parts

The above, potentially, assists in drawing the scope and boundaries when designing sustainable supply chain strategies. A definition comprising of all aspects is difficult to find (Mentzer et al., 2001). A similar definition derived by Schonsleben (2000:2) identifies that:

‘Supply chain management enables the coordinated management of material and information flows through the chain from your sources to your customers. The objective of SCM is to reduce or minimize total cost, improve total quality, maximize customer service, and increase profit.’

The definition is also based on the understanding that value is derived from this network. In other words, it encompasses the network of distributors such as agents, retailers, warehouses, transporters and suppliers. Given the considerable depth of this network, no one model on what could be

considered as an assessment to sustainability may be universally applied and that the evaluation criteria and scoring may vary and would have to be undertaken on a case by case basis.

We have identified, that in order to be sustainable, there are a few attributes required by supply chains, such as: a company should have sustainable commitment, they need to implement environmental systems and corporate reporting.

These will be discussed as follows:

There is evidence that stakeholders are aware of sustainability issues and corporations requiring to go down that path need to follow best practices by integration of environmental management within supply chain management (Jayaraman et al., 2005). Supply chains harvesting good sustainable measures have been successful in influencing public buying decisions (DEFRA, 2006). It needs to be understood that those corporations that established their clear cut policies on sustainability can activate innovation, improved processes, products and profits (Kleindorfer et al., 2005) in their supply chain management. In other words, it is necessary for supply chains to have established sound sustainable policies. It is also identified that there can be a transition to a sustainable supply chain provided you have a strong focused leadership stemming from top management. To have an effective green supply chain there should be the necessary investment made for financial and manpower resources (Murray, 2010). From this perspective, we can derive a hypothesis about the relationship between sustainable influences and corporate commitment to sustainability.

Though voluntary reporting differs from compulsory reporting, it highlights the corporation's values towards sustainable measures (Veleva et al., 2003). GRI (Global Reporting Initiative) was established in 1997 by the Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environmental Program (UNEP) and has by far the most popular guidelines used. The intention is to assist companies in creating sustainability reports that include social, environmental and economic impacts of corporation. It is regarded as internationally accepted framework that can address comparable sustainability reporting.

Can reliance on GRI reports indicate corporate sustainability? Isaksson and Steimle (2009) found that there is a general consensus on how to identify if corporations are sustainable, besides the definition there is the triple-bottom-line, Eco-efficiency (World Business Council for Sustainable Development), Global Compact and the Natural Step. The study analysed GRI based sustainability reports of five major cement manufactures as the decisions and actions involve the entire supply chain right from raw material suppliers to the final consumer. The study concluded that current GRI guidelines are inadequate for sustainability reporting as it doesn't provide a clear picture and doesn't adequately consider the needs of the consumer. Clearly this is suggestive of a need to incorporate other measures that can satisfy the needs of the consumer.

This begs the question: Can an organization's sustainable requirements be fulfilled if evaluative criteria models meet the information requirements of key supply chain businesses?

## Methodology

The target list was obtained from the publicly accessible data available from the Department of the Environment and Water Resources (NPI, 2007). The database provided names of organizations, their addresses and information on the types and the quantity of substance emissions for all industry categories across Australia. The database provided more than 3,000 establishments from a broad range of industry sectors that report annually their emissions to the National Pollutant Inventory (NPI).

Those industries that are identified as exceeding their acceptable threshold would be required to report to the NPI. The target list of 980 organizations was selected from the database of around 48,000 pollution smokestacks Australia wide. The selection criteria used in this research were that only those organizations that had the emission levels exceeding 99,532 kilograms were selected. Additionally, 228 other organizations were selected from the Dun and Bradstreet businesses database. In all a total of 1,208 questionnaires were mailed and ultimately 332 completed and usable questionnaires were received mainly from manufacturing industries.

To increase the response rate, Dillman's (1978) method was used. Contact was made through multiple mailings. The first mailing was followed-up by a reminder postcard and then the second mailing. A response rate of 25 per cent was achieved, unlike other researches who reported higher than 40 per cent response rate (Diaz de Rada, 2001). It is likely that the length (9 pages) of the research instrument used in this study may have negatively influenced the response rate, judging from some of the comments received by the survey respondents.

In line with the literature discussed above the following responses were tested to understand the criteria required for sustainable supply chains:

Companies that had a green procurement policy were asked to respond to the question on what extent does: the importance of environmental management systems (ISO

9000; ISO14000), corporate commitment on environmental consideration and Global Reporting Initiative influence procurement in their organisation?

Respondents were sent a questionnaire based on sustainable environmental practice. The questionnaire is a part of another major study consisting of about 156 questions of which 13 (likert-type questions) were taken for this study. Companies were assessed on numerous dimensions.

To determine if the test scales matched our expectations, factor analysis was undertaken on the issues that influenced procurement in their organisation. It also considered the firm's environmental management accounting to address environmental goals. The analysis was conducted using a minimum eigenvalue criterion of 1 for factors and the standard varimax rotation. It was decided to retain items with a factor loading greater than .40 in the scales. The coefficient alpha was computed for the resulting scales. The scores of .60 or higher are regarded as acceptable depending on test use, item face validity and interpretability (Armor, 1974; Schmitt, 1996).

Principle components that is orthogonally rotated based on the Varimax procedure was used to reduce the original set of variables into a smaller set of composite variables (Hair, 2003). Factors that met the minimum latent root criterion of 1 were retained. The total variance accounted for over 60 per cent, and each of the factors could be assigned a logical name (Hair, 2003). The Kaiser-Meyer-Olkin Measure of Sampling Adequacy is 7.6, which is within generally accepted parameters. Furthermore, the cumulative variance for these 3 components is 70.3 per cent, which is adequate.

We used multiple regression analysis to determine companies that have a green procurement policy, the R-Square of .244 is statistically significant at a level of .000, as shown in the ANOVA table below. This means that 24% of the variation in sustainable procurement can be explained from the three dependent variables.

Table  
1

<i>Construct</i>	<i>Loading</i>	<i>Mean</i>	<i>SD</i>
<i>Corporate commitment (Alpha = .92)</i>			
<i>Environment is the key criteria in supplier selection even if expensive</i>	.87	3.04	1.34
<i>Buying from green suppliers enhances corporate image</i>	.85	3.39	1.51
<i>We have commitment to buy green supplies</i>	.76	3.51	1.37
<i>Environment is the key selection criteria for top management</i>	.70	3.62	1.59
<i>Corporate reporting (Alpha = .82)</i>			
<i>Used to improve the reputation of the company</i>	.86	3.68	1.87
<i>Used to assist with internal and external reporting</i>	.85	4.13	1.91
<i>Environmental data being used for corporate social reporting</i>	.82	4.44	2.13
<i>Environmental accounting is critical to our organisation</i>	.60	3.95	1.83
<i>Management systems (Alpha = .76)</i>			
<i>ISO 9000 for procurement</i>	.89	4.73	1.71
<i>ISO 14000 for procurement</i>	.76	4.62	1.67

Model Summary

<i>Model</i>	<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>	<i>Std. Error of the Estimate</i>
1	.494 <sup>a</sup>	.244	.238	1.659

a. Predictors: (Constant), REGR factor score 3 for analysis 2, REGR factor score 2 for analysis 2, REGR factor score 1 for analysis 2

Table: 2

ANOVA<sup>b</sup>

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	291.971	3	97.324	35.381	.000 <sup>a</sup>
Residual	902.246	328	2.751		
Total	1194.217	331			

a. Predictors: (Constant), REGR factor score 3 for analysis 2, REGR factor score 2 for analysis 2, REGR factor score 1 for analysis 2

b. Dependent Variable: Green procurement policy

Table: 3

Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	3.337	.091		36.664	.000
REGR factor score 1 for analysis 2	.722	.091	.380	7.921	.000
REGR factor score 2 for analysis 2	.556	.091	.293	6.103	.000
REGR factor score 3 for analysis 2	.226	.091	.119	2.482	.014

a. Dependent Variable: Green procurement policy

Table: 4

The results in the above table reveal that factors “Corporate commitment to sustainability” and “Corporate reporting” are significant predictors for green procurement. The results show a positive beta coefficient, meaning a positive relationship, and a significant t-test result for both variables, thus the model suggests that corporate commitment and reporting are both strong predictors, with commitment being better than reporting ( $\beta = .380$  and  $.293$  respectively). The third factor, i.e. Management systems is not highly significant (using an  $\alpha$  of  $.050$ ).

The alpha values of the above items are good considering  $.7$  as a minimum

## Findings and Discussions

In particular, this research set out to identify the key sustainable criteria required for supply chains which were considered mainly from the environmental context. The results of this study shows evidence of a relationship existing between elements of the environmental issues that influence procurement in an organisation and companies with green procurement policy requiring to

ameliorate supply chain assessment. In particular, when developing a model for assessing the criteria for supply chain management, three major factors need to be considered by managers, one is a supply chain's corporate commitment, the second is to ascertain if they have corporate reporting initiatives and lastly the need for management systems (ISO). Nonetheless this is not sufficient as other factors need to also be considered.

Furthermore, the research seeks to support organisations to plan, implement and evaluate sustainable activities. For instance, the study also found that the two management systems ISO 9000 series were found to be preferred over the ISO 14000. The goal of ISO 9000 series is to provide guidelines on what represents an effective quality management system that can serve as a threshold for continuous improvement. This may also suggest that ISO 9000 could be a regulatory requirement and quality takes precedence over environment. Managers need to consider ISO 14000 series, as this can be used to meet external objectives since it stands to provide assurance on environmental standards, compliance with regulation, as well as internal support on claims and advocacy on the firms own policies, plans and actions

In this environment, it was rather surprising to find that sensitivity to price was seen as important rather than obtaining suppliers who supplied green products. Despite majority of the organisations having a green procurement policy, they much preferred suppliers to be competitive in quality and price. Strategies used by firms in terms of differentiation, use of environmental labels, brand image, top management decision and environmental considerations were found to be not very important. These are key requirements for obtaining sustainable measures and firms require to be vigilant about this.

The study has the following limitations. For example, postal surveys can be problematic as fewer responses are obtained and lack of validity can be attributed to using structured questionnaires. A larger sample size will probably allow for findings of this study to be successfully generalised for a variety range of manufacturing industries with confidence.

## Conclusions

This research identified the key criteria that corporations may consider in searching for a sustainable supply chain as being (1) corporate commitment, (2) environmental management systems and (3) corporate reporting. It is clear that moving towards a sustainable future has also provoked challenging concerns to corporations to attain sustainable measures in their products, systems and processes. To achieve this transformation towards a more ecologically oriented and socially equitable corporation, all processes, procurement and disposal require to be made sustainable. Further research could use structural equation modelling approach to improve the test on the nature of the relationships examined in this study. It would derive a full information test.

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## SMALL AND MEDIUM ENTERPRISES FINANCING IN AFRICA: THE NIGERIAN EXPERIENCE

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### Abstract

SMEs are veritable vehicles for triggering and sustaining economic growth and equitable development in the developing economies. They hold the keys to the reduction of poverty in developing countries. The contributions of the SMEs sector are enormous which include creation of employment opportunities, sources of economic growth and innovation, increased competition which promotes greater economic dynamism and a more equitable distribution of income as well as important source of export revenues in some developing countries.

In spite of the significant contribution of the sector to income and employment generation, there is yawning financing gap of SMEs in Africa. Lack of access to finance constitutes the most critical factor affecting the growth of SMEs in the African continent. Aware that the provisions of equity and debt financing have not reduced the financing gap, the focus of policy makers both at the national and international level is to evolve a workable financing model to enhance increased contribution of SMEs to rapid economic transformation. The thrust of this paper is to review issues, structure and the character of SME finance in Nigeria. The paper revealed that the road map to access finance for SMEs in Nigeria remains difficult and challenging. The author therefore proposed appropriate reforms in the area of developing effective mutual guarantee scheme, partnership between banks and entrepreneurs, tax policy review, upgrade of SMEs, SMEs focussed capital market and increased equity finance.

### Introduction

There is an increasing global recognition of the role of SMEs in economic growth of developed and developing economies. Regarded as catalysts and engine of economic growth and private sector development, SMEs in recent times are considered top most priority in virtually every economy in the world.

They constitute more than 90 percent of businesses worldwide and account for between 50 and 60 percent of employment. Similarly, in Africa, SMEs are known to comprise over 90 percent of African business operations and contribute to over 50 percent of African employment and GDP. In Nigeria, SMEs account for some 95 per cent of formal manufacturing activity and 70 per cent of industrial jobs. The real sector of the economy, comprising manufacturing, solid minerals and agriculture sectors- is where most SMEs fall into. They employ an average of 50 percent of the working population as well as contributing up to 50 percent to Nigerian industrial output.

The benefits of SMEs are increasingly felt in terms of capital investment, job creation, skills transfer, infrastructure development, knowledge sharing and social responsibility programmes to countries throughout Africa (African Development Bank, 2004). Their impact on society can never be overestimated when viewed from their contribution to the equitable distribution of income and provision of employment resulting in social cohesion and stability.

In spite of the significant contribution of the sector to income and employment generation, there is a yawning financing gap of SMEs in Africa. It is widely believed that lack of finance constitutes the most critical factor affecting the growth of SMEs in the African continent. These financial constraints are attributable to such factors as undeveloped financial sector accompanied by low levels of financial intermediation, lack of institutional and legal structures for lending risk mitigation as well as high cost of borrowing.

Africa's SMEs have little access to finance, which thus hampers their emergence and eventual growth. Their main sources of capital are their retained earnings and informal savings and loan associations, which are unpredictable, not very secure and have little scope for risk sharing because of their regional or sectoral focus. Access to formal finance is poor because of their high risk of default among SMEs and due to inadequate financial facilities (OECD, 2005).

Furthermore the inadequacies of equity and debt financing to a large extent inhibit the growth of the sector in the African continent. Aware that the provisions of equity and debt financing have not reduced the financing gap, the focus of policy makers both at the national and international level is to evolve a workable financing model to enhance increased contribution of SMEs to rapid economic transformation.

The thrust of this paper is to examine the sources of SMEs finance as well as their constraints. The paper is divided into six parts. Following the introduction is section 2 which borders on conceptual and theoretical framework. Section 3 conducts an analysis of the sources of financing SMEs in Nigeria. The fourth section discusses public policy and SMEs financing in Nigeria. The constraints to financing SMEs in Nigeria are discussed in section 5 while conclusion and recommendation are considered in section 6. The methodology adopted in this paper is simply descriptive survey.

## **Conceptual and Theoretical Framework**

Conceptualization of Small and Medium Enterprises (SMEs) has attracted various definitions cutting across structure, size and components. This has made it difficult for researchers to converge on a singular classification. While some authors consider SMEs in terms of capital assets, others link it to skills of labour turnover, legal status and method of production.

The European Commission (EC) defined SMEs largely in terms of the number of employees as follows:

- firms with 0 to 9 employees - micro enterprises;
- 10 to 99 employees - small enterprises;

- 100 to 499 employees - medium enterprises.

In effect, the EC definitions are based solely on employment rather than a multiplicity of criteria. Secondly, the use of 100 employees as the small firm's upper limit is more appropriate, given the increase in productivity over the last two decades (Storey, 1994).

Weston and Copeland (1998) hold that definitions of size of enterprises suffer from a lack of universal applicability. In their view, this is because enterprises may be conceived of in varying terms.

Size has been defined in different contexts, in terms of the number of employees, annual turnover, industry of enterprise, ownership of enterprise, and value of fixed assets. Van der Wijst (1989) considers small and medium businesses as privately held firms with 1 – 9 and 10 – 99 people employed, respectively. Jordan et al (1998) define SMEs as firms with fewer than 100 employees and less than €15 million turnover. Michaelas et al (1999) consider small independent private limited companies with fewer than 200 employees and López and Aybar (2000) considered companies with sales below €15 million as small. According to the British Department of Trade and Industry, the best description of a small firm remains that used by the Bolton Committee in its 1971 Report on Small Firms. This stated that a small firm is an independent business, managed by its owner or part-owners and having a small market share (Department of Trade and Industry, 2001).

The UNIDO also defines SMEs in terms of number of employees by giving different classifications for industrialized and developing countries

- The definition for industrialized countries is given as follows:
- Large - firms with 500 or more workers;
- Medium - firms with 100-499 workers;
- Small - firms with 99 or less workers.

The classification given for developing countries is as follows:

- Large - firms with 100 or more workers;
- Medium - firms with 20-99 workers;
- Small - firms with 5-19 workers;
- Micro - firms with less than 5 workers.

Small and Medium Enterprises (SMEs) in Nigeria, as defined by Small and Medium Industries Equity Investment Scheme (SMIEIS), are enterprises with a total capital employed not less than NGN1.5 million, but not exceeding NGN200 million, including working capital, but excluding cost of land and/or with a staff strength of not less than 10 and not more than 300.

Academic literature reveals that there are competing theories that delve in to forms of finance from which SMEs could rely on to fund their enterprises. These theories are the pecking order theory and

static trade-off theory. The pecking order theory developed by Myers (1984) focuses on a firm's capital structure in which preference is given to internally generated funds rather than external financing. According to the theory if for any reason external financing is required debt should be preferred to over equity.

The pecking order theory can also be explained by the existence of transaction costs. Transaction costs associated with external finance play an important role in selecting financing sources. Firms will first use internal equity financing, followed by external debt financing and finally external equity financing.

Myers (1984) suggests that asymmetric information and transaction costs overwhelm the forces that determine optimal leverage in the trade-off models. To minimize these financing costs, firms prefer to finance their investment projects first with internal cash flows. Only if there is a residual financing need they will use external capital in following order; first safe debt, then risky debt and finally equity issues. The static trade-off theory, which focuses on the benefits and costs of issuing debt, predicts that an optimal target financial debt ratio exists, which maximizes the value of the firm. The optimal point can be attained when the marginal value of the benefits associated with debt issues exactly offsets the increase in the present value of the costs associated with issuing more debt.

### Sources of SMA Financing in Nigeria

It is widely believed that financing of SMEs strongly depends on the sector of activity and its growth circle. The process of SMEs is occasioned by financing the firms either by equity or debt or both. This is evidenced in pecking order and static trade theories in literature.

The financing of smaller firms are dependent on initial insider finance (equity) and external finance through angel financing. Other sources of finance for SMEs include venture capital, trade credit, financial institutions, leasing and factoring.

SMEs in Nigeria tend to depend heavily on equity financing. Firms in the country rely most on their personal funds and retained earnings. Table 1 shows financing structure of SMEs in Nigeria. It shows that 70 percent of Small firms rely on own funds and retained earnings. Trade credits are also small representing 25 percent while bank financing accounts for 1 percent. The table also reveals that loan from family friends and other informal sources account for 4 percent only.

<i>Source of finance</i>	<i>Small</i>	<i>Medium (%)</i>
<i>Own funds/Retained Earnings</i>	70%	71%
<i>Loan from Banks and other financial Institutions</i>	1%	1%
<i>Trade credits</i>	25%	25%
<i>Loan from family ,friends and other informal sources</i>	4%	2%

*Table 1: Structure of SMEs financing in Nigeria*

*Source:ICA survey,2008*

When compared with South Africa, the limited nature of funding SMEs is more severe in Nigeria than South Africa. This is revealed in table 2. It reveals that own funds and retained earnings accounts for 66% in south Africa and 70% in Nigeria. Loans from banks and other financial institutions account for 1 percent while in South Africa, it accounts for 17 percent. In South Africa trade credits accounts for 12percent while it accounts for 25 percent in Nigeria. variations from other sources include borrowing from family friends and other informal sources and issuance of new equity and debt.

<i>SOURCE OF SME FINANCE</i>	<i>SOUTH AFRICA</i>	<i>NIGERIA</i>
<i>Own funds and retained earnings</i>	66%	70%
<i>Loans from Banks and other financial institutions</i>	1%	17%
<i>Trade credits</i>	12%	25%
<i>Loan from family, friends and other informal sources</i>	1%	4%
<i>Issued new equity/debt</i>	1%	-

Table 2: FINANCING SMES IN SOUTH AFRICA AND NIGERIA

Source:ICA Survey

<i>Nature of credit</i>	<i>Small</i>	<i>Medium</i>
<i>Overdraft</i>	6	13
<i>Other lines of credit/Loans</i>	3	6

Table 3: Access to SME credit By Size in Nigeria

Source:ICA survey,2008

As we can see in the preceeding tables, access of SMEs to trade credits in Nigeria is higher than finance from banks and other financial institutions. Such credits are often determined by the size of the firm. Medium firms benefit from credit facilities than smaller firms. This is shown in table 3. Table 3 shows that only 8percent and 4 percent of SMEs in Nigeria enjoy over draft and other lines of credit. This tends to favour medium firms as represented by 13 percent and 6 percent for overdrafts and other lines of credit respectively.

Besides, such credits are determined by sector. In table 4 is shown that the firms with the highest access are those in the food industry. This is corroborated by the recent proliferation of restaurants

and fast food services in the country. This underscores the fact that bank and financial institution lending facility tend to favour those retail businesses that promise quick turnover and can pay back at the shortest possible time.

<i>Lines of credit</i>	<i>Food</i>	<i>Garments</i>	<i>Retail</i>	<i>Other services</i>
<i>Overdrafts</i>	11%	0.5%	10.6%	7.5%
<i>Other forms of credit/Loan</i>	5.5%	1.0%	5.0%	4.1%

*Table 4: SME credit by sector in Nigeria*

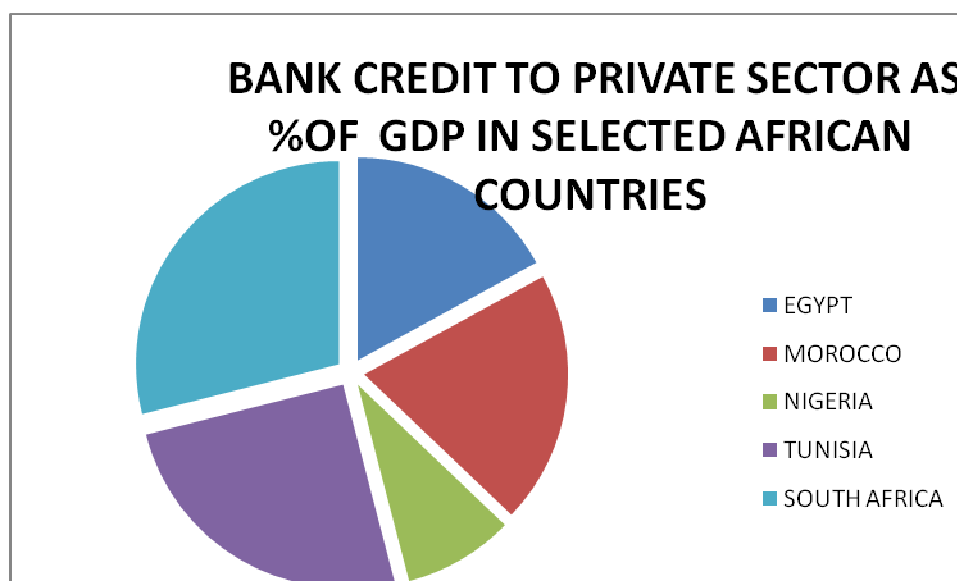
*Source: ICA survey, 2008*

SMEs in Nigeria are often seen as under capitalised when banks apply generally accepted international standards for financial assessment and face significant problems in raising debt finance and in obtaining risk capital, or subordinated debt.

Since the Basel II Accord seeks to align banks' capital allocation with the risk characteristics of a bank's lending there has been concern in the SME sector that the new regulations will increase the cost of borrowing or impose even more difficult hurdle criteria and in some markets perhaps provoke a further reduction in credit facilities made available to the SME sector.

The challenge faced by SMEs in Nigeria is how to convince banks that they are taking an acceptable risk and will therefore pay a reasonable return on finance provided to them.

For prudential purposes, banks regulators generally require banks to maintain capital at not less than a stated fraction of the bank's total assets. For instance, banks are expected to meet the capital adequacy requirement of the Basel Accord of ten per cent. Also in Nigeria, banks are expected to maintain a minimum of 40 per cent liquidity ratio of total deposits. Thus, the ability of banks to grant loans is constrained by the amount of financial resources at their command, based on the capital requirements. Compared to other African countries, bank credit to the private sector in Nigeria is quite insignificant. Figure 1 shows bank credit to some selected African countries as a percentage of GDP. Also, the percentage of credit to SMEs from total credit granted by deposit money banks is shown in table 5.



*Source: Collated from Fitch rating data on bank systemic Risk Report, 2007.*

<i>DMBs CREDIT TO AS PERCENT OF TOTAL CREDIT</i>			
<i>YEAR</i>	<i>Credit to SMEs (N'Bn)</i>	<i>DMB Total Credit(N'Bn)</i>	<i>Credit to SMEs as % of DMBs Total Credit (%)</i>
2003	38.51	1,203.20	3.20
2004	26.31	1,519.24	1.73
2005	66.28	1,991.15	3.33
2006	134.68	2,524.30	5.34
2007	203.58	4,813.49	4.23

*Table5*

*Source: Central Bank of Nigeria 2008*

One potent source of financing SMEs in the global context is leasing. Leasing involves an agreement between the owner of the asset, the lessor and the user of the asset the lessee who is granted the right to use the asset on payment of a mutually agreed amount. Leasing in advanced economies is considered as the alternative of financing to bank loans source. The volume of leasing in Nigeria is not significant in Nigeria. The trend is shown in table 5 and figure 2.

In Nigeria the SMEs only enjoy an average of 33 percent of the total operating and financial leases in the country. Although the leasing arrangement may be beneficial for SMEs in terms of easing up working capital, leasing companies in Nigeria are not regulated financial companies. This could be understood because of the lack of a leasing law that would safeguard lenders when given credit to borrowers. However, it is hoped that an upward trend in lease financing would be witnessed in the country when eventually the draft leasing in the country receives the presidential assent.

Year	Leasing Volume <sup>1</sup> '000'	Growth (%)
1996	4,170,411	(12)
1997	10,300,000	147
1998	11,240,000	9
1999	14,836,800	32
2000	19,645,315	32
2001	32,166,425	64
2002	48,267,580	50.6
2003	59,848,798	24
2004	78,863,068	31.77
2005	115,140,079.01	46
2006	189,881,130	65

Note: <sup>1</sup>N thousands

Table 6: Leasing Market Trend in Nigeria (1996 – 2006)

Source: Central Bank of Nigeria, 2008

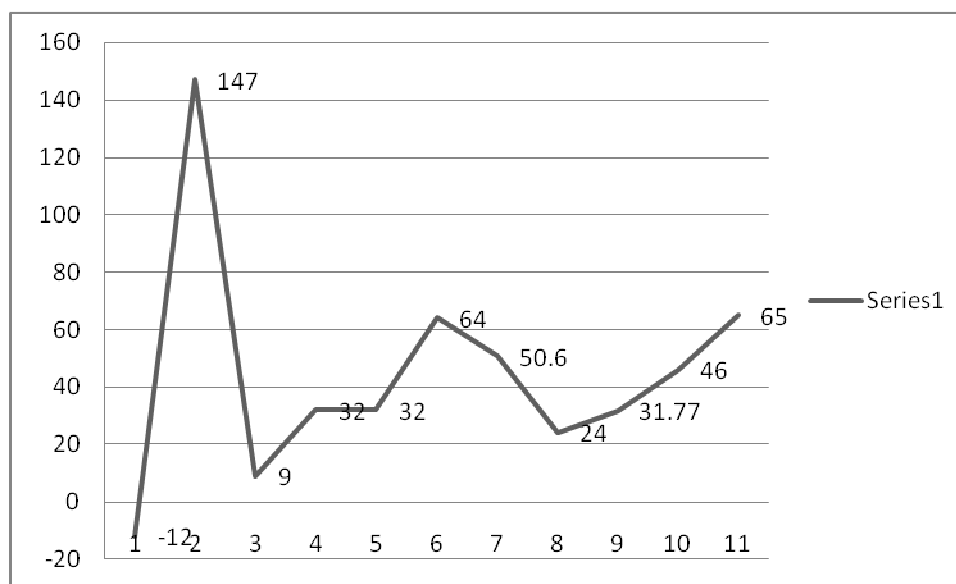


Figure 1: Annual Growth per cent in the Leasing Market

Another form of finance to SMEs is factoring. Factoring involves the purchase a discount of the account receivable of a firm by a third party known as a factor. This form of finance is not common in Nigeria. Banks in Nigeria tend to ignore SMEs in providing factoring finance due to the high credit risk involved. They prefer to grant factoring finance to the oil sector companies and other large corporate bodies with lower credit risk.

Other sources of finance include micro finance banks and the small and medium Enterprises Equity Investment scheme. MFBs are very lightly involved in the SME finance sector, but this is expected to change, especially for some of the new MFBs launched by banks. A number of MFBs have already



visited business associations such as the National Association of Small and Medium Enterprises (NASME) and the Manufacturing Association of Nigeria (MAN) to promote their services.

However, MFBs are formally limited to keep 60 percent of their portfolio below the NGN 500,000 (US\$ 4,310) loan threshold.

The Small and Medium Enterprises Equity Investment Scheme (SMEEIS) was initiated by the Bankers' Committee in 1999 (becoming operational in 2001) as a response to the Government's concerns for the promotion of SMEs as vehicles for rapid industrialization, sustainable economic development, poverty alleviation and employment generation. The scheme required all banks to set aside ten percent of their annual after tax profits for SME promotion and investment in SMEs. The investments could take the form of loans or equity, although a mandated nine percent interest rate cap on loans reduced incentives to lend and led banks to seek equity investments in SMEs.

SME equity investments are especially difficult given due diligence requirements and difficulties to exit the investment through sale of shares, and this was compounded by the banks having little experience with this type of investment. Understandably, the banks had difficulty identifying suitable SMEs.

As of end-December 2008, SMEEIS investments totaled NGN 28 billion (US\$ 194.4 million<sup>34</sup>) in 333 companies, out of a total NGN 42 billion (US\$ 291.6 million<sup>35</sup>) in the fund (CBN,2008).

#### **Public Policy and SMEs Financing in Nigeria**

- The SMEs financing schemes established by the Nigerian government and other institutions to assist SMEs development in Nigeria include;
- Mandatory Credit Guideline in respect of SMEs (1970).
- Small Scale Industries Credit Guarantee Scheme (1971).
- Agricultural Credit Guarantee Scheme (1973).
- Nigeria Agriculture and Co-operative Bank (1973).
- Nigerian Bank for Commerce and Industry (1973).
- Rural Banking Scheme (1977).
- The World Bank Assisted SME I (1985) and The World Bank Assisted SME II (1990).
- Second – Tier Security Market (1985).
- Peoples Bank (1989).
- National Economic Reconstruction Fund (1992).
- Small and Medium Scale Enterprises Loan Scheme (1992).
- Family Economic Advancement Programme (1997).
- African Development Bank – Export Stimulation Loan Scheme (ADB-ESL) in 1988.

- Bank of Industry (BOI) - being merger of NIDB, NBCI and NERFUND) in 2001.
- Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB) - being merger of NACB, Peoples Bank and Family Economic Advancement Programme (FEAP) in 2002; and
- Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2004.

It is interesting to note that positive and progressive efforts have been made by government and financial institutions to improve funding of SMEs in Nigeria. These efforts include the institutionalization of Financial Sector Strategy (FSS 2020) and the enforcement of the National Economic Empowerment and Development Strategy (NEEDS). The policy stance of these strategies is to facilitate the growth of private sector driven economy, job creation through the empowerment of SMEs, provision of infrastructure and the mobilisation of long-term capital for investment amongst others.

The policy framework of government centred around the establishment of such institutions as Small and Medium scale enterprises of Nigeria (SMEDAN) with the principal aim of enhancing the performance of SMEs. Furthermore, the introduction of the National Poverty Eradication Programme (NAPEP) was to tackle the problems of poverty and unemployment by granting loans to start-up micro and small-scale businesses. The amalgamation of Nigeria Bank for Commerce and Industry (NBCI) and Nigeria Industrial Development Bank (NIDB) to establish the Bank of Industry (BOI) was aimed at resuscitating ailing small, medium and large-scale industries.

The conversion of Community Banks to Micro Finance Institutions (MFIs) was aimed at funding SMEs while the introduction of the Small and Medium Industries Equity Investment Scheme (SMIEIS), seeks all banks operating in Nigeria to set aside 10 percent of their pre-tax profit for equity investments in SMEs.

In conclusion, the essence of SMEDAN, SMIEIS, BOI and MFIs was to address the problems of undercapitalization as well as promote the development of the entire SMEs sector.

### **Constraints to SMEs Financing in Nigeria**

There is no gainsaying that SMEs in Africa particularly Nigeria are beset with difficulties in funding their businesses. SMEs lack access to external finance.

In this paper we have identified the following constraining factors to SMEs finance in Nigeria: high risk venture perception, inability to access the capital market, information asymmetry, poor project planning, inadequate collaterals, poor credit history, financial indiscipline and lack of equity investment.

#### **High risk venture perception**

Traditionally, SMEs are regarded as high risk ventures because of the lack of continuity in the event of the death of sole proprietors. Owners of business do not incorporate succession which makes it difficult for financiers to grant credit.

Furthermore, the unwillingness of banks to lend to SMEs in Nigeria are traceable to such factors as poor risk sharing policies, inadequate bank liquidity, poor bank network development and the overall under capitalization of SMEs.

### **Inability to access the capital market**

SMEs face relatively high entry barriers to the capital market which makes it difficult for them to adequately tap available finance for their business. This had been attributed to by their aversion to disclosure and ownership dilution, although many SMEs blamed this phenomenon on the cumbersome requirements and procedures for listing on the Stock Exchange. The establishment of the second-tier security markets of the Nigerian Stock Exchange, which was expected to solve this problem, has been shunned by most of the SMEs.

### **Information asymmetry**

SMEs in Nigeria are characterized by severe information asymmetry. They have limited information and even if they have the information comes, they access it with high cost. Consequently, with their poor financial background access becomes difficult.

In the words of Lefilleur the acuteness of information asymmetries between bankers and entrepreneurs, which cannot be offset by adequate loan securitization constitutes one of the stumbling blocks to SME financing in Africa.

On the part of banks, the overcautiousness of banks are attributed to such factors as the volume effect which leads to high unit costs, the risks of counter parties, lack of long term resources on the part of banks and even the difficulty to secure loans.

One of the factors at the backdrop of information asymmetry is that most SMEs evolve in the informal sector and are therefore not in the position to give banks the minimum information they generally require (contact details, legal documents, financial statements..). Furthermore, for SMEs evolving in the formal sector, the absence of accounting standards-or, on the contrary, the excessive level of accounting information required..., as well as the lack of independent competent and credit accounting firms have impact on the quality of financial information, transmitted to banks (Kaufmann, 2005; IMF, 2006).

Furthermore, there is dearth of information on SME firms by economic sector, number of employees, revenues or assets is available publicly. The Corporate Affairs Commission (CAC), the governmental entity charged with registering and regulating the formation and management of companies in Nigeria, does not have a formal mechanism for providing statistics.

### **Poor project planning**

SMEs in most cases do not follow the procedures of project planning and implementation as such operate with the rule of thumb. Quite often they ignore feasibility proposal for funding of their business and even if they do such proposals are poorly prepared because of avoidance of high cost of feasibility preparation.

**High cost of funds**

Despite firms' perceptions of excessively high interest rates, the cost of finance is found to compare favorably with that of the aforementioned countries and generally the issue relates to the amount (monetary value) of the installment as opposed to the cost of credit. When installments are high (due to inadequate loan maturities or inadequate product structure) the interest rate is perceived to be high. Low installment amounts, even when these represent a much higher interest rate, are perceived as being less expensive. The term or maturity of loans is also a serious issue, as Nigeria seems to have the shortest average loan maturity (21 months) among comparable countries such as Kenya, Brazil, China and India (Isern et al 2009).

**Inability to meet collateral requirement**

SMEs are denied of bank financing because of lack of suitable collateral to meet the funding requirement of banks. Collateral is a real deterrent for applying for credit, since every loan of over NGN 10 million (US\$ 86,000) must be collateralized (per CBN regulation) with land or buildings and smaller loans generally also require some form of collateral (per market practice). SMEs report that unacceptable collateral or co-signers are the most likely reason (over 50% of firms) for rejection of their loan application

**Poor credit history**

SMEs in Nigeria are characterized by absence of, or unverifiable history of past credit(s) obtained and lack of adequate historical records of the company's transaction.

**Financial Indiscipline**

It has been a common practice of loan diversion by entrepreneurs. Instead of embarking of project for which loans were granted some SME proprietors deliberately divert loans for irrelevant purposes which are outside the sphere of business operations. Consequent upon this is the refusal to pay back. This creates a phobia for lenders and as such genuine borrowers are barred from accessing such facilities.

**Lag in Loan approval and disbursement**

Another constraint to SMEs is the long delays in granting approval and disbursement due to poor packaging of request and/or non availability of information/materials to enable banks process request immediately.

**Lack of equity investment**

The equity, or ownership position, that investors receive in exchange for their funds usually takes the form of stock in the company. This provides small business owners with a broader scope in terms of financing as they gain access to multiple funding sources. In contrast to debt financing, which includes loans and other forms of credit, equity financing does not involve a direct obligation to repay the funds. Instead, equity investors become part-owners and partners in the business, and thus are able to exercise some degree of control over how it is run. While there are many benefits that can be

derived from equity financing, there are also a few reasons why there has traditionally been a lack of equity investment in SMEs. The primary reason is that equity investors seek highest return consistent with the risk of investment; SME investments are difficult to evaluate; SME investments take time to mature; and they are often difficult to liquidate.

In addition, initial public offerings can be very complex and expensive to administer because of onerous listing rules and other disclosure requirements. Such equity financing may require complicated legal filings and a great deal of paperwork to comply with various regulations put in place to provide credible information to investors.

In recent times the flow of private equity investment has been witnessed in Africa. This flow however remains marginal in Nigeria compared to South Africa. The bulk of investment goes to South Africa accounting for 52 percent while Nigeria received 19 percent (Private sector development Magazine, 2009).

## **Conclusion and Policy Recommendation**

This paper critically examined issues, structure and the character of financing SMEs in Nigeria. In examining the fundamental issues, the sources and constraints of financing SMEs were discussed. It revealed that in spite of the progressive and positive efforts of government and other financial institutions there is still a yawning gap. It is obvious that the path to access finance for SMEs is a major challenge. Given the robust contribution to SMEs in the economy in terms of employment and economic growth it is absolutely necessary to pay increased attention on financing the sector.

The difficulties SMEs face in sourcing finance are multidimensional. This missing middle in Nigeria is attributed to the cost and limited access to finance from banks and other institutions.

The banking sector develops apart in granting credit to SMEs owing to the perceived lack of compliance on the part of entrepreneurs to loan granting procedures such as poorly prepared project proposals, financial documentation and inadequate collateral. Other constraints include the inability of SMEs to access finance from the capital market.

In conclusion, the road for developing access to credit for SMEs in Nigeria remains difficult and challenging, but experience in other parts of the world shows that the obstacles can be surmounted if appropriate reforms to address the basic needs of credit systems are implemented. Against this backdrop, we propose the following:

- The need for SMEs in the country to develop more effective mutual credit
- guarantee scheme through the establishment of SME cooperatives.
- The need for developing partnership relationship between banks and SMEs
- The need for government to improve access to equity finance.
- The need for SMEs to integrate in to formal sector.
- Review tax policy by reducing taxes for SMEs.

- Need for upgrade.
- Bridging the divide between banks and SMEs through regular training and awareness programme.
- Structure NSE to to be SMEs focussed.
- Efficient legal system accompanied by a transparent business environment.

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## EFFECTS OF WORKING CAPITAL MANAGEMENT ON CYPRIOT FIRMS' PROFITABILITY

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### Abstract

This research identifies the effect of working capital management on profitability of the 43 firms that listed in the Cyprus Stock Exchange. This research covers 10 years period of the firms operations from 1998 to 2007. The cash conversion cycle and its components such as stock holding period, debtor collection period and creditor payment period are used as the measurement of the working capital management against the profitability. The result confirms that the cash conversion cycle has a negative correlation with the profitability means that to increase profitability, firms should shorten their cash conversion cycle. Stock holding period, debtor collection period and creditor payment period has also a negative correlation with the profitability, means that the firms should reduce number of days of keeping their stock, collecting their debtors and paying their creditors in order to increase their profitability.

**Keyword:** Working Capital, Profitability, Cyprus Stock Exchange, Cash Conversion Cycle.

### Introduction

Working capital, as it is described as the capital available to meet the day-to-day operations, has been an interesting field to be researched into. One of the reasons is that the management of the working capital may have impacts on the firms' profitability. The management of the working capital means that the company should find the effective and efficient way of dealing with the cash available for the day-to-day operations in order to achieve the optimum impacts. A key factor in the working capital management is the cash conversion cycle as it is stated by Gitman in 1974. Deloof (2003) added that a popular measure of working capital management is the cash conversion cycle, where it is defined as the time lag between the purchasing of raw materials and the collecting of sales of the finished goods. The longer the lag, the much more investment needed in working capital. Deloof (2003) stated that a longer cash conversion cycle might increase profitability since it leads to higher sales, however the opposite condition might happen because a longer cash conversion cycle will carry a higher investment cost and thus lead to decrease the profitability of the firms. In this research, the author would like to know the effect of the cash conversion cycle to the profitability of the firms. Should the firms lengthen or shorten their cash conversion cycle to increase the profitability and which components of the cash conversion cycle that increase or decrease the profit. Evidence from 43 companies that listed on the Cyprus Stock Exchange will be used as the samples. This research will cover 10 years period from 1998 to 2007.

## Literature Review

Shin and Soenen (1998) reported that working capital management may have an important effect on the firms' profitability. The measurement of working capital which is the cash conversion cycle is consisted of stock holding period, debtors collection period and creditors payment period. As it is mentioned earlier that more investment in the working capital (the longer cash conversion cycle), it might lead to increase or decrease the profitability. One side stated that investing more in cash conversion cycle (conservative policy) may lead to increase profit since maintaining high stock level will increase sales, reduce supply costs, reduce cost of possible interruption in production and protect against price fluctuations (Blinder and Maccini, 1991). The increasing of debtors collection period may also strengthen the relationship with customers and hence favors the sales better (Ng et al, 1999). Deloof (2003) stated that based on National Bank of Belgium data in 1997, the debtors and stock represents 17% and 10% of total asset of all Belgian non-financial firms. Summers and Wilson (2000) also stated that more than 80% of the daily business transactions in UK corporate sector are on credit terms. Nevertheless, on the other side, most evidence support the aggressive policy which stated that minimizing the cash conversion cycle would significantly affect the profitability of the firms. Shin and Soenen (1998) took the samples of American firms for the 1975-1994 period and found that the firms can increase profitability by reducing the cash conversion cycle. Deloof (2003) took samples of Belgian firms for the 1992-1996 period and found that the firms can increase their profitability by reducing the debtors collection period and stock holding period. However, he found that less profitable firms wait longer to pay their bills. Wang (2002) took samples of Japanese and Taiwanese firms for the 1985-1996 period and found that a shorter cash conversion cycle would lead to a better firms' operating performance. Lazaridis and Tryfonidis (2006) took samples of companies listed in Athens Stock Exchange for the 2001-2004 period and showed that there is a significant relationship between profitability of the firms and the cash conversion cycle. Teruel and Solano (2007) took samples of small to medium-sized Spanish firms for the 1996-2002 period and found that the firms can create value by reducing the stock holding period and debtors collection period and shortening the cash conversion cycle. Finally, Raheman and Nasr (2007) researched samples of Pakistani firms for the period 1999-2004 and found that there is a strong negative relationship between the cash conversion cycle and the profitability of the firms means that to increase the profitability, the firms should reduce their cash conversion cycle.

## Research Methodology

### Data collection

This research is conducted using 43 samples of firms that listed in the Cyprus Stock Exchange (CSE). The author chooses the firms that listed in the CSE simply due to the easier access of the firms' financial statements. All the firm financial statements are taken from the Stockwatch Research and Analysis Department database which is available from the Stockwatch Cyprus official website ([www.stockwatch.com.cy](http://www.stockwatch.com.cy)). The author choose only 43 firms based on the availability of the financial statements from the period 1998-2007. Currently total firms that listed on the CSE are 131 companies



(CSE Bulletin May 2009 Edition, Issue 148). The taken samples are approximately 33% of the total listed firms. Appendix 1 briefly describes the selected firms and their respective industry, super sector and subsector.

### Variables

As mentioned earlier, the cash conversion cycle is the measure of the working capital management, where the cash conversion cycle is counted as follows:

Cash Conversion Cycle = Stock Holding Period + Debtors Collection Period – Creditors Payment Period

The components of cash conversion cycle are counted as follows:

Stock Holding Period = Stock/Cost of Sales\*365

Debtors Collection Period = Stock/Sales\*365

Creditors Payment Period = Creditors/Cost of Sales\*365

To analyze the effect of working capital management on profitability of the firms, then profitability variable will be the dependent variable and cash conversion cycle and its components will be the independent variables including the control variables. The profitability measure is the Return on Asset which is counted as follow:

Return on Asset = Operating Profit/Total Asset

The control independent variables are Natural Logarithm of Sales, Sales Growth and Debt ratio which are calculated as follow:

Natural Logarithm of Sales = Ln(Sales)

Sales Growth = (Salest – Salest-1)/Salest-1

Debt Ratio = Total Liabilities/Total Asset

### 3.3. Methodology

In regards to identify the effects of working capital management on firms' profitability, the author follows the methodology used by Deloof (2003) in his study about Belgian firms and Teruel and Solano (2007) in their study about Spanish small to medium-sized firms. The models then will be developed as the following equations:

$$ROA_{it} = \beta_0 + \beta_1 STOCK_{it} + \beta_2 LNSALES_{it} + \beta_3 SGROW_{it} + \beta_4 DEBT_{it} + e_{it} \quad (1)$$

$$ROA_{it} = \beta_0 + \beta_1 DEBTOR_{it} + \beta_2 LNSALES_{it} + \beta_3 SGROW_{it} + \beta_4 DEBT_{it} + e_{it} \quad (2)$$

$$ROA_{it} = \beta_0 + \beta_1 CREDITOR_{it} + \beta_2 LNSALES_{it} + \beta_3 SGROW_{it} + \beta_4 DEBT_{it} + e_{it} \quad (3)$$

$$ROA_{it} = \beta_0 + \beta_1 CCC_{it} + \beta_2 LNSALES_{it} + \beta_3 SGROW_{it} + \beta_4 DEBT_{it} + e_{it} \quad (4)$$

Where:

$ROA_{it}$  = Return on Asset counted yearly of each firm (for all firms,  $i=1, \dots, n$ , where  $n$  is the total number of firms;  $n=43$ )

$STOCK_{it}$  = Stock Holding Period counted yearly of each firm (for all firms,  $i=1, \dots, n$ , where  $n$  is the total number of firms;  $n=43$ )

$DEBTOR_{it}$  = Debtors Collection Period counted yearly of each firm (for all firms,  $i=1, \dots, n$ , where  $n$  is the total number of firms;  $n=43$ )

$CREDITOR_{it}$  = Creditors Payment Period counted yearly of each firm (for all firms,  $i=1, \dots, n$ , where  $n$  is the total number of firms;  $n=43$ )

$CCC_{it}$  = Cash Conversion Cycle counted yearly of each firm (for all firms,  $i=1, \dots, n$ , where  $n$  is the total number of firms;  $n=43$ )

$LNSALES_{it}$  = Natural Logarithm of Sales counted yearly of each firm (for all firms,  $i=1, \dots, n$ , where  $n$  is the total number of firms;  $n=43$ )

$SGROW_{it}$  = Sales Growth counted yearly of each firm (for all firms,  $i=1, \dots, n$ , where  $n$  is the total number of firms;  $n=43$ )

$DEBT_{it}$  = Debt Ratio counted yearly of each firm (for all firms,  $i=1, \dots, n$ , where  $n$  is the total number of firms;  $n=43$ )

$e_{it}$  = estimate of yearly residual for each firm

To analyze the methodology, the author will use descriptive statistic, Pearson correlation analysis and regression analysis by using SPSS Statistical Software version 16.0.

## Analysis of Findings

### Descriptive statistic

The descriptive statistic of all the variables shows the mean, standard deviation and the minimum and maximum values of variables. The descriptive statistic as summarized in Table 1 describes the statistic for 43 Cypriot firms listed in the Cyprus Stock Exchange with the 10 years observation period from 1998 to 2007 for a total 430 firms year observations. The average value of Return on Asset is 4.9% with the standard deviation 7.69% means that the value of the Return on Asset can deviate from the mean to both sides by 7.69%. The maximum value of ROA for a firm in a year is 48.73% while the minimum is -30.15%. Firms keep the stocks until sells them, in average, for 2103 days or around 5 years which is quite a large period, however the standard deviation is large as well which is 35,353 days. Firms receive payment on sales, in average, after 248 days with the standard deviation 2561 days. The firms pay their purchase, in average, after 210 days with the standard deviation 1661 days. The cash conversion cycle in this case has an average 2141 days with the standard deviation 36,260 days. The yearly average sales is £ 23,352,500 with the average natural logarithm 15,9515. The average of the yearly growth in sales is 28.23% and the average of the yearly debt ratio is 45.51%.

*Descriptive Statistics*

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
ROA	430	-0.3015	0.4873	0.0490	0.0769
STOCK	430	0.0000	729969.5091	2103.2738	35353.2317
DEBTOR	430	0.0000	52921.9692	248.0533	2560.8009
CREDITOR	430	0.0000	34316.6328	210.1031	1660.8299
CCC	430	-2782.1786	748574.8455	2141.2239	36259.5859
SALES	430	1.0000	255679582	23352500.1419	37817215.6544
LNSALES	430	0.0000	19.3594	15.9515	2.2038
SGROW	430	-1.0000	19.3802	0.2823	1.4381
DEBT	430	0.0253	1.1667	0.4551	0.2095
Valid N (listwise)	430				

*Table 1 Descriptive Statistic*

### Pearson correlation analysis

Pearson correlation analysis will see the relationship between variables. The negative relationship between profitability and working capital management should be expected. As seen on Table 2, it is approved that the measure of profitability which is the Return on Asset has a negative relationship with the Cash Conversion Cycle, means that by shortening the cash conversion cycle, the firm will increase profitability. All the components of the cash conversion cycle also have negative relationship with the Return on Asset. The Stock holding period and the Debtors collection period have a negative relationship with the ROA, means that by shortening the time to sell the stock and shortening the time to receive payment from customer, will lead to increase profitability. The research also found the negative relationship between the Creditor payment period and the ROA, this finding is consistent with the pervious finding by Deloof (2003), which is explain that less profitable firms wait longer to pay their purchasing bills. The control variables also support the relationship with the ROA. The sales growth has a positive relationship with the ROA and the Debt Ratio has a negative relationship with the ROA, means that the firms who grow more will achieve more profit and the firms should reduce its level of debt in order to increase their profitability. However the sales and the natural logarithm of sales are found to have a negative relationship with the ROA. This might be have a meaning that not how much the number of sales that is counted, but how the firms can make a growth in sales year by year, that is important to increase the profitability.

### Regression analysis

Regression analysis will identify which independent variables are important to affect the dependent variables. As mentioned earlier on methodology (section 3.3), there are four regression models that will be analyzed.

The first model:

$$ROA_{it} = \beta_0 + \beta_1 STOCK_{it} + \beta_2 LNSALES_{it} + \beta_3 SGROW_{it} + \beta_4 DEBT_{it} + e_{it} \quad (1)$$

The first model regressed the stock holding period, natural logarithm of sales, sales growth and debt ratio against the return on asset. The result appears on Figure 1. The model is not quite well explaining the variability of the dependent variable since the  $R^2$  is only 4%. The F test is shows that the model is significant with  $F = 4.405$ . In regards to the coefficients of the independent variables, it confirms the same direction with the previous correlation analysis. As seen on Figure 1, the stock holding period has a negative coefficient, means that the firms should reduce the number of days holding the stock in order to increase the profitability. The sales growth has a positive coefficient with the ROA means that to increase the profitability, the firm should increase the sales growth. The natural logarithm of sales has a negative coefficient since that it might be not how much sales but the growth of sales that is more important to increase the profit. The debt ratio has a negative coefficient, prove that to increase the profitability, the firms should reduce their level of debt. However, in term of significance of the variables (t test), only debt ratio variable that is highly significant explaining the relationship with the ROA. The stock holding period, the natural logarithm of sales and the sales growth are found to be insignificant to explain the relationship with the ROA.

## Correlations

		ROA	STOCK	DEBTOR	CREDITO R	CCC	SALES	LNSALES	SGROW	DEBT
ROA	Pearson Correlation	1.000	-.048	-.053	-.051	-.048	-.172**	-.077	.074	-.167**
	Sig. (2-tailed)		.320	.271	.289	.318	.000	.110	.125	.000
	N	430.000	430	430	430	430	430	430	430	430
STOCK	Pearson Correlation	-.048	1.000	.998**	.993**	1.000**	-.036	-.145**	-.026	-.096*
	Sig. (2-tailed)	.320		.000	.000	.000	.460	.003	.597	.047
	N	430	430.000	430	430	430	430	430	430	430
DEBTOR	Pearson Correlation	-.053	.998**	1.000	.993**	.998**	-.043	-.147**	-.027	-.099*
	Sig. (2-tailed)	.271	.000		.000	.000	.373	.002	.579	.039
	N	430	430	430.000	430	430	430	430	430	430
CREDITO R	Pearson Correlation	-.051	.993**	.993**	1.000	.993**	-.042	-.138**	-.026	-.074
	Sig. (2-tailed)	.289	.000	.000		.000	.388	.004	.591	.127
	N	430	430	430	430.000	430	430	430	430	430
CCC	Pearson Correlation	-.048	1.000**	.998**	.993**	1.000	-.036	-.145**	-.026	-.097*
	Sig. (2-tailed)	.318	.000	.000	.000		.457	.003	.596	.044
	N	430	430	430	430	430.000	430	430	430	430
SALES	Pearson Correlation	-.172**	-.036	-.043	-.042	-.036	1.000	.501**	-.045	.290**
	Sig. (2-tailed)	.000	.460	.373	.388	.457		.000	.348	.000
	N	430	430	430	430	430	430.000	430	430	430
LNSALES	Pearson Correlation	-.077	-.145**	-.147**	-.138**	-.145**	.501**	1.000	.001	.143**
	Sig. (2-tailed)	.110	.003	.002	.004	.003	.000		.978	.003
	N	430	430	430	430	430	430	430.000	430	430
SGROW	Pearson Correlation	.074	-.026	-.027	-.026	-.026	-.045	.001	1.000	-.072
	Sig. (2-tailed)	.125	.597	.579	.591	.596	.348	.978		.136
	N	430	430	430	430	430	430	430	430.000	430
DEBT	Pearson Correlation	-.167**	-.096*	-.099*	-.074	-.097*	.290**	.143**	-.072	1.000
	Sig. (2-tailed)	.000	.047	.039	.127	.044	.000	.003	.136	
	N	430	430	430	430	430	430	430	430	430.000

\*\* . Correlation is significant at the 0.01 level(2tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

Table 2 Pearson Correlation

*Variables Entered/Removed<sup>b</sup>*

Model	Variables Entered	Variables Removed	Method
1	DEBT, SGROW, STOCK, LNSALES <sup>a</sup>	.	Enter

*a. All requested variables entered.*

*b. Dependent Variable: ROA*

*Figure 1 SPSS Output Regression Model 1**Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.200 <sup>a</sup>	.040	.031	.07566735644953 9

*a. Predictors: (Constant), DEBT, SGROW, STOCK, LNSALES*

*ANOVA<sup>b</sup>*

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	.101	4	.025	4.405	.002 <sup>a</sup>
Residual	2.433	425	.006		
Total	2.534	429			

*a. Predictors: (Constant), DEBT, SGROW, STOCK, LNSALES*

*b. Dependent Variable: ROA*

*Coefficients<sup>a</sup>*

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.111	.027		4.058	.000
	STOCK	-1.551E-7	.000	-.071	-1.480	.140
	LNSALES	-.002	.002	-.065	-1.334	.183
	SGROW	.003	.003	.061	1.274	.203
	DEBT	-.059	.018	-.161	-3.325	.001

*Coefficients<sup>a</sup>*

<i>Model</i>	<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	<i>T</i>	<i>Sig.</i>
	<i>B</i>	<i>Std. Error</i>	<i>Beta</i>		
1 (Constant)	.111	.027		4.058	.000
STOCK	-1.551E-7	.000	-.071	-1.480	.140
LNSALES	-.002	.002	-.065	-1.334	.183
SGROW	.003	.003	.061	1.274	.203
DEBT	-.059	.018	-.161	-3.325	.001

*a. Dependent Variable: ROA*

The second model:

$$ROA_{it} = \beta_0 + \beta_1 DEBTOR_{it} + \beta_2 LNSALES_{it} + \beta_3 SGROW_{it} + \beta_4 DEBT_{it} + e_{it} \quad (2)$$

The second model regressed the debtor collection period, natural logarithm of sales, sales growth and debt ratio against the return on asset. The findings are in the same direction with the correlation analysis. As appears on Figure 2, debtor variable has a negative coefficient, means that to increase the profitability, the firms should reduce the debtor collection period or make customer pay earlier. The control variables have the same result with model 1, the natural logarithm of sales and debt ratio has a negative coefficient and the sales growth has a positive coefficient. However in regards with the significance of the variables (t test), only debt ratio variable is significant explaining the relationship with the ROA. The debtor collection period, natural logarithm of sales and sales growth are found to be insignificant. In term of F test, the model is significant as the F test is 4.503. However the model is not quite well explaining the variability of the dependent variables since the coefficient of determination,  $R^2$ , is only 4.1%.

*Variables Entered/Removed<sup>b</sup>*

<i>Model</i>	<i>Variables Entered</i>	<i>Variables Removed</i>	<i>Method</i>
1	DEBT, SGROW, DEBTOR, LNSALES <sup>a</sup>	.	Enter

*a. All requested variables entered.*

*b. Dependent Variable: ROA*

*Figure 2 SPSS Output Regression Model 2*

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.202 <sup>a</sup>	.041	.032	.075634016027900

a. Predictors: (Constant), DEBT, SGROW, DEBTOR, LNSALES

ANOVA<sup>b</sup>

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	.103	4	.026	4.503	.001 <sup>a</sup>
Residual	2.431	425	.006		
Total	2.534	429			

a. Predictors: (Constant), DEBT, SGROW, DEBTOR, LNSALES

b. Dependent Variable: ROA

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.112	.027		4.087	.000
	DEBTOR	-2.318E-6	.000	-.077	-1.602	.110
	LNSALES	-.002	.002	-.066	-1.353	.177
	SGROW	.003	.003	.060	1.268	.206
	DEBT	-.059	.018	-.161	-3.341	.001

a. Dependent Variable: ROA

The third model:

$$ROA_{it} = \beta_0 + \beta_1 CREDITOR_{it} + \beta_2 LNSALES_{it} + \beta_3 SGROW_{it} + \beta_4 DEBT_{it} + e_{it} \quad (3)$$

The third model regressed the creditor payment period with the control variables, against the profitability (ROA). The result as appears in Figure 3 confirms the same direction with the correlation analysis. Creditor payment period has a negative coefficient means that less profitable firms wait longer to pay their bills, this direction result confirms the same with Deloof (2003) findings. The control variables: natural logarithm of sales and debt ratio has a negative coefficient and the sales growth has a positive coefficient, similar direction with model 1 and model 2. However in regards of



the t test significance in model 3, as the same findings with model 1 and model 2, only debt ratio variable that is significant to explain the relationship with the profitability. The creditor payment period, natural logarithm of sales and the sales growth are found to be insignificant. The coefficient of determination in model 3 is also not high, only 4% of the variability of the dependent variables can be explained by the model. The F test shows that the model is significant with the  $F=4.391$ .

*Variables Entered/Removed<sup>b</sup>*

<i>Model</i>	<i>Variables Entered</i>	<i>Variables Removed</i>	<i>Method</i>
1	DEBT, SGROW, CREDITOR, LNSALES <sup>a</sup>	.	Enter

*a. All requested variables entered.*

*b. Dependent Variable: ROA*

*Figure 3 SPSS Output Regression Model 3*

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.199a	.040	.031	.075672367454242

a. Predictors: (Constant), DEBT, SGROW, CREDITOR, LNSALES

*ANOVA<sup>b</sup>*

<i>Model</i>	<i>Sum of Squares</i>	<i>Df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>
1 Regression	.101	4	.025	4.391	.002 <sup>a</sup>
Residual	2.434	425	.006		
Total	2.534	429			

*a. Predictors: (Constant), DEBT, SGROW, CREDITOR, LNSALES*

*b. Dependent Variable: ROA*

*Coefficients<sup>a</sup>*

<i>Model</i>	<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	<i>t</i>	<i>Sig.</i>
	<i>B</i>	<i>Std. Error</i>	<i>Beta</i>		
1 (Constant)	.111	.027		4.054	.000
CREDITOR	-3.250E-6	.000	-.070	-1.460	.145
LNSALES	-.002	.002	-.064	-1.326	.186
SGROW	.003	.003	.061	1.276	.203
DEBT	-.058	.018	-.159	-3.297	.001

*a. Dependent Variable: ROA*

The fourth model:

$$ROA_{it} = \beta_0 + \beta_1 CCC_{it} + \beta_2 LNSALES_{it} + \beta_3 SGROW_{it} + \beta_4 DEBT_{it} + e_{it} \quad (4)$$

The fourth model regressed the cash conversion cycle and the control variables against the ROA. The result confirms the same direction with the correlation analysis. The cash conversion cycle has a negative coefficient, prove that to increase their profitability, firms should shorten their cash conversion cycle. Natural logarithm of sales and debt ratio has a negative coefficient and sales growth has a positive coefficient, the same findings with the previous three models. However, again the findings stated that only debt ratio variable that is significant (with  $t$  test= -3.328) to explain the relationship with the ROA. The other independent variables are found to be insignificant, the same as findings in model 1, 2 and 3. In regards with the  $F$  test, the model is significant with the  $F=4.412$ . However, only 4% of the variability of the dependent variable can be explained by the model.

*Variables Entered/Removed<sup>b</sup>*

<i>Model</i>	<i>Variables Entered</i>	<i>Variables Removed</i>	<i>Method</i>
1	DEBT, SGROW, CCC, LNSALES <sup>a</sup>	.	Enter

*a. All requested variables entered.*

*b. Dependent Variable: ROA*

*Figure 4 SPSS Output Regression Model 4*

*Model Summary*

<i>Model</i>	<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>	<i>Std. Error of the Estimate</i>
1	.200 <sup>a</sup>	.040	.031	.075664922836138

*a. Predictors: (Constant), DEBT, SGROW, CCC, LNSALES*

*ANOVA<sup>b</sup>*

<i>Model</i>	<i>Sum of Squares</i>	<i>df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>
1 <i>Regression</i>	.101	4	.025	4.412	.002 <sup>a</sup>
<i>Residual</i>	2.433	425	.006		
<i>Total</i>	2.534	429			

*a. Predictors: (Constant), DEBT, SGROW, CCC, LNSALES*

*b. Dependent Variable: ROA*

*Coefficients<sup>a</sup>*

<i>Model</i>	<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	<i>t</i>	<i>Sig.</i>
	<i>B</i>	<i>Std. Error</i>	<i>Beta</i>		
1 <i>(Constant)</i>	.111	.027		4.061	.000
<i>CCC</i>	-1.522E-7	.000	-.072	-1.489	.137
<i>LNSALES</i>	-.002	.002	-.065	-1.335	.183
<i>SGROW</i>	.003	.003	.061	1.273	.204
<i>DEBT</i>	-.059	.018	-.161	-3.328	.001

*a. Dependent Variable: ROA*

## Conclusion

Working capital management is an important factor to affect the firms' profitability. In the case of firms that listed in the Cyprus Stock Exchange, based on Pearson correlation analysis, it is found that the measurement of the working capital management, which is the cash conversion cycle, has a negative correlation with the measurement of profitability, the ROA. The components of the cash conversion cycle are also has a negative correlation with the ROA. It means that firms should maintain and manage their working capital effectively and efficiently, particularly to shorten their cash conversion cycle, stock holding period and debtor collection period in order to increase their

profitability. The result of the regression analysis showed the same direction, but did not show the significance of the working capital management to the profitability. It might be due to the complex relationship between variables.

The author recommends that further research should be carried in the area of working capital management in the Cypriot companies. Future research should be carried with larger samples and if possible also include small and medium-sized companies that represents the largest type of companies in Cyprus. The author also recommends that future research should also discover the complex relationship between variables, so that the working capital management can be proved to have a significant relationship with the profitability.

This research, however, hold a limitation that the author did not include all the firms that listed in the Cyprus Stock Exchange as samples, so that this research has a limitation in term of number of samples. The author is also did not discover if there is any complex relationship between variables (such as multicollinearity), therefore further research should bring into consideration any complex relationship between variables.

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## Appendix 1: The Selected Firms

No	Code	Company	Industry	Supersector	Subsector
1	LPL	LORDOS UNITED PLASTICS PUBLIC LTD	Basic Materials	Chemicals	Specialty Chemicals
2	CAR	CARAMONDANI BROS PUBLIC CO LTD	Industrials	Construction & Materials	Heavy Construction
3	CCC	THE CYPRUS CEMENT PUBLIC COMPANY LTD	Industrials	Construction & Materials	Building Materials & Fixtures
4	CFI	CYPRUS FOREST INDUSTRIES PUBLIC LTD	Industrials	Construction & Materials	Building Materials & Fixtures
5	CHAP	CHARILAOS APOSTOLIDES PUBLIC LTD	Industrials	Construction & Materials	Heavy Construction
6	DISP	DISPLAY ART LTD	Industrials	Industrial Goods & Services	Business Support Services
7	GAP	G.A.P. VASSILOPOULOS PUBLIC LTD	Industrials	Industrial Goods & Services	Marine Transportation
8	KYTH	K. KYTHREOTIS HOLDINGS PUBLIC LTD	Industrials	Construction & Materials	Building Materials & Fixtures
9	MAI	MUSKITA ALUMINIUM INDUSTRIES PLC	Industrials	Construction & Materials	Building Materials & Fixtures
10	NEM	NEMESIS CONSTRUCTIONS PUBLIC COMPANY LTD	Industrials	Construction & Materials	Heavy Construction
11	FBI	ALKIS H. HADJIKYRIACOS (FROU-FROU BISCUITS) PUBLIC LTD	Consumer Goods	Food & Beverage	Food Products
12	KEO	KEO PLC	Consumer Goods	Food & Beverage	Distillers & Vitners
13	PIPF	PIPIS BROS FARMS PUBLIC COMPANY LTD	Consumer Goods	Food & Beverage	Farming & Fishing
14	ROL	ROLANDOS ENTERPRISES PUBLIC LTD	Consumer Goods	Personal & Household Goods	Personal Products
15	TLA	TELIA AQUA MARINE PUBLIC LTD	Consumer Goods	Food & Beverage	Farming & Fishing
16	ZRP	A. ZORBAS & SONS PUBLIC LTD	Consumer Goods	Food & Beverage	Food Products
17	ACR	ASTRA SELF DRIVE CARS PUBLIC LTD	Consumer Services	Travel & Leisure	Travel & Tourism
18	AGRO	AGROS DEVELOPMENT COMPANY "PROODOS" PUBLIC LTD	Consumer Services	Travel & Leisure	Hotels
19	ANC	AMATHUS PUBLIC LTD	Consumer Services	Travel & Leisure	Hotels
20	AQS	AQUA SOL HOTELS PUBLIC COMPANY LTD	Consumer Services	Travel & Leisure	Hotels
21	ASG	A.S.G. (ANDY SPYROU) GROUP PUBLIC LTD	Consumer Services	Travel & Leisure	Travel & Tourism
22	CAIR	CYPRUS AIRWAYS PUBLIC LTD	Consumer Services	Travel & Leisure	Airlines
23	CBH	CONSTANTINOU BROS HOTELS	Consumer Services	Travel & Leisure	Hotels

		<i>PUBLIC COMPANY LTD</i>			
24	CCCT	<i>C.C.C. TOURIST ENTERPRISES PUBLIC COMPANY LTD</i>	<i>Consumer Services</i>	<i>Travel &amp; Leisure</i>	<i>Hotels</i>
25	CLA	<i>CLARIDGE PUBLIC LTD</i>	<i>Consumer Services</i>	<i>Travel &amp; Leisure</i>	<i>Hotels</i>
26	CTC	<i>CYPRUS TRADING CORPORATION PLC</i>	<i>Consumer Services</i>	<i>Retail</i>	<i>Broadline Retailers</i>
27	DES	<i>Dimco Plc</i>	<i>Consumer Services</i>	<i>Retail</i>	<i>Home Improvement Retailers</i>
28	DHH	<i>D.H. CYPROTELS PLC</i>	<i>Consumer Services</i>	<i>Travel &amp; Leisure</i>	<i>Hotels</i>
29	FWW	<i>WOOLWORTH (CYPRUS) PROPERTIES PLC</i>	<i>Consumer Services</i>	<i>Retail</i>	<i>Broadline Retailers</i>
30	KAN	<i>KANIKA HOTELS PUBLIC COMPANY LTD</i>	<i>Consumer Services</i>	<i>Travel &amp; Leisure</i>	<i>Hotels</i>
31	KRO	<i>KRONOS PRESS DISTRIBUTION AGENCY PUBLIC COMPANY LTD</i>	<i>Consumer Services</i>	<i>Media</i>	<i>Publishing</i>
32	LCH	<i>LEPTOS CALYPSO HOTELS PUBLIC LTD</i>	<i>Consumer Services</i>	<i>Travel &amp; Leisure</i>	<i>Hotels</i>
33	LHH	<i>LORDOS HOTELS (HOLDINGS) PUBLIC LTD</i>	<i>Consumer Services</i>	<i>Travel &amp; Leisure</i>	<i>Hotels</i>
34	MPT	<i>MALLOUPPAS &amp; PAPACOSTAS PUBLIC CO LTD</i>	<i>Consumer Services</i>	<i>Retail</i>	<i>Broadline Retailers</i>
35	ORF	<i>ORFANIDES PUBLIC COMPANY LTD</i>	<i>Consumer Services</i>	<i>Retail</i>	<i>Broadline Retailers</i>
36	PAPA	<i>C.A.C. PAPANTONIOU PUBLIC COMPANY LTD</i>	<i>Consumer Services</i>	<i>Retail</i>	<i>Food Retailers &amp; Wholesalers</i>
37	PHC	<i>PHC FRANCHISED RESTAURANTS PUBLIC LTD</i>	<i>Consumer Services</i>	<i>Travel &amp; Leisure</i>	<i>Restaurants &amp; Bars</i>
38	PHL	<i>PETROLINA (HOLDINGS) PUBLIC LTD</i>	<i>Consumer Services</i>	<i>Retail</i>	<i>Specialty Retailers</i>
39	SAL	<i>SALAMIS TOURS (HOLDINGS) PUBLIC LTD</i>	<i>Consumer Services</i>	<i>Travel &amp; Leisure</i>	<i>Travel &amp; Tourism</i>
40	SHL	<i>STADEMOS HOTELS PLC</i>	<i>Consumer Services</i>	<i>Travel &amp; Leisure</i>	<i>Hotels</i>
41	COV	<i>TOXOTIS INVESTMENTS PUBLIC LTD</i>	<i>Financials</i>	<i>Financial Services</i>	<i>Equity Investment Instruments</i>
42	KG	<i>K + G COMPLEX PUBLIC COMPANY LTD</i>	<i>Financials</i>	<i>Financial Services</i>	<i>Real Estate Holding &amp; Development</i>
43	PES	<i>PHILOKTIMATIKI PUBLIC LTD</i>	<i>Financials</i>	<i>Financial Services</i>	<i>Real Estate Holding &amp; Development</i>

## ADVERTISING SELF-REGULATION IN PORTUGAL AND SPAIN: A COMPARATIVE STUDY

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### Abstract

The main purpose of this paper is to aims to analyze the present situation of advertising self-regulation in Portugal and compare with Spain. First, data provided by the Portuguese institute of advertising self-regulation (ICAP) regarding complaints submitted in the years 2007 to 2009 was compared with data from AutoControl (Spanish self-regulatory body) of Spain. Second, an in-depth individual interview was conducted with the Chairman of ICAP. Portugal shows fewer complaints, which may indicate less informed or demanding consumers, and which clearly demonstrates that the Spanish consumer associations resort to their self-regulatory body to solve cases of illegal advertising. The analysed data was collected from secondary source. Despite the credibility of institutions that gathered the data, it was not carried out a survey that allow us a better understand of the differences in advertising self-regulation of the two countries and the attitude of Portuguese and Spanish consumers. Official entities should be awake for the research results in order develop campaigns to raise awareness among consumers for the negative consequences of the illegal and no ethics advertising in the consumer's life. As far as we know this is the first time that the situation of advertising self-regulation is compared between Portugal and Spain, in number of complaints, type of infraction, type of source, offender's sector of activity, media where the advertising was placed.

**Keywords:** advertise, self-regulation, complaint, ethics, fraudulent, communication.

### Introduction

This paper aims to make an analysis of the present situation of advertising self-regulation in Portugal. The presentation will be divided in two parts: the first part will concern some considerations regarding the need for self-regulation and business ethics with special emphasis on the advertising activity; and the second part, regarding the self-regulation of Portuguese advertising, presents a comparative study with Spain.

### Literature Review

If business ethics is today a concern of companies, this concern is particularly felt in advertising. Not only is this one of the more visible elements of business ethics, but also, by its characteristics of communicational endeavour with greatly differentiated audiences, it requires respect for ethic

standards which are not easy to define due to the values and interests, which may be conflicting, between the different players and organizations directly related to this activity.

Therefore, self-regulatory bodies in advertising arose late in Europe (beginning of the 1980s), England being the first country to implement them. It should be noted, however, that there was some form of self-regulation in advertising before this in the countries which adopted the manual of business good practices of the ICC (International Chamber of Commerce), which contains some articles relating to advertising, namely as regards comparative and deceitful advertising practices.

All systems of self-regulation in advertising in Europe derive from a tripartite agreement between the intervening parties in the advertising process: advertisers, advertising agencies and media.

These bodies integrate an Advertising Ethics Jury, which must be composed by lawyers and advertising experts who no longer have professional ties with the industry, so as to ensure their impartiality when appreciating complaints. Both the constitution and the working of these bodies abide by evident ethical concerns.

It is not our purpose to discuss the concept of ethics, since this discussion already comes from the Greek Antiquity and even today new approaches to the concept keep arising, both based on philosophy and on various science such as psychology, sociology and neurobiology. By highlighting the biological basis of consciousness, the issue of ethics is not merely a cognitive question of rational foundation, in a theory of being, but becomes an issue that involves feelings and emotions, which determine interests and values, among which moral values (Damásio, 1994).

We accept the definition of ethics as a set of moral principles and values which guide the individual's conduct and which, having a social origin, may vary according to the culture in which it is found (which could take us to the concept of intercultural information ethics- increasingly important in the globalization of communication and of the advertising activity itself ). Based on Charles Holme (2008), we define business ethics as a set of moral principles which enable us to reach a decision about the values of the organization.

Companies adopt these moral principles to gain larger compensations from the markets where they carry out their activity. Using an analogy with a distinction found in one of Heidegger's works (1987), the company aims to follow a moral as reward factor (presenting itself to the consumers as a company that possesses values in order to boost its credibility), avoiding the feeling of guilt (described by the author as the feeling of someone who owes something to another) of less responsible companies.

The issue of business ethics is only possible if there is basic training in the employees that constitute it, a training which, according to Piaget, follows the development of the individual and which the school may foster, helping the child move from heteronomy to moral autonomy. Nevertheless, other schools of thought in psychology, such as that of Kohlberg, consider that moral development carries on during the adult stage, and therefore it makes every sense that the university should keep training its students in moral terms, and in particular, prepare them for a critical reflection on the deontological problems of their future professions. In this sense we would like to quote Donald Schön



(1992), who claims that professional training at university level should include (at least) 3 components: specialized knowledge in the study area in question; technical performance skills; a standard of professional conduct.

We fully accept this statement, but we have to admit that this need is not transposed into the reality. Derek Bok (1990) discusses the question that the teaching of ethics in North-American universities is nearly non-existent as well as the problems this causes to professions (a situation that is common to other Western countries). He claims that the 'main scope of a programme is not to provide correct answers, but rather contribute to make students more perceptive when identifying ethical problems when they find themselves better informed of the best moral theories amassed in ethical thinking, and in possession of more reasons regarding the ethical dimensions to face their own personal and professional lives' (1990: 73). Augusto Hortal (1996) is also of the same opinion when he states that the university should help students to systematically reflect on the service (main obligations and possible ethical conflicts) they will have to face if they want to take on their professional exercise with responsibility for the benefit of society. Professionals cannot be passive people who, a critically, only carry out decisions others take for them.

Various authors explain how ethics fuses with all professional activities and how their university education is inadequate. We may mention here such authors as Appebaum, D., Lawton, S.V. (1990), *Ethics and the Professions*, N.J., Prentice Hall; Sockett, H. (1993) *The moral base for the teacher professionalism*, N.Y., Teachers College Press; Altarejos, F., and others, *Ética Docente* (1998) [Teaching Ethics], Barcelona, Ariel.

We would also like to quote Simon (1994) who warns of the difficulty of teaching ethics in schools. According to this author, the teacher's neutrality in the ethical education of students is not only an illusion but also an abdication of operating in a morally appropriate manner. Indeed, when it comes to the university education of advertising professionals, this ethical training is more necessary, since this is a new field of studies without established traditions and since this is an activity which involves tremendous conflicts of values, not always easy to solve. These conflicts involve not only the difference in values of the operators, but they pitch the creativity and the right to freedom of speech of advertising professionals against some rules, sometimes arbitrary, of the various entities involved.

Therefore, as regards advertising ethics, many universities have introduced this course in their 1st and 2nd cycle programmes. This professional preparation will enable the construction of a service ideal for professionals and the definition of a professional identity, which seems to us to be an important condition to enable professionals to contribute, in a critic but constructive manner, to establish norms for the self-regulation of the institutions that represent them.

It seems relevant to quote, regarding the defence we did of the university preparation in the field of ethics, the work of Cornelius Pratt. Comparing the future professional aspirations of university students of advertising who attended a course in ethics with those that did not attend this course, he concludes that these students' difference in perspective is quite apparent concerning their future in

advertising, with the former showing greater awareness of the complexity of the situations and a greater sense of responsibility.

When we talk of self-regulation in advertising we lend it the sense contained in the definition of advertising self-regulation by the EASA (European Alliance for Standards of Advertising), a body that gathers all the self-regulating entities of European countries.

Without forgetting that we live in a common European space, based on economic interests, but also on the sharing of values, we must not forget either that we live in a national society with its own cultural and economic specificities, which determines that the same set of rules give rise to different enforcements and deviations. We thus come to the second part of this paper.

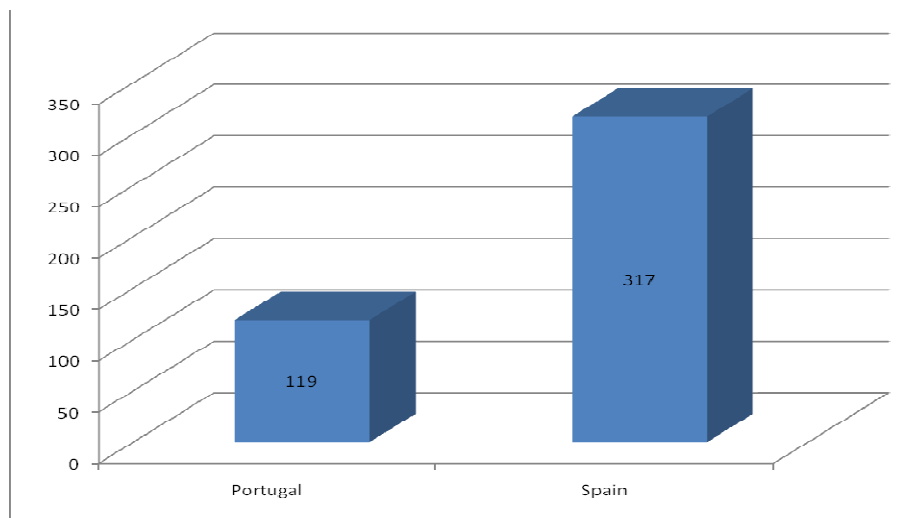
## Methods

As methodology for our study, we used the analysis of data from the Portuguese institute for advertising self-regulation (ICAP) regarding complaints submitted in the 2008/2009, as well as data from AutoControl (Spanish self-regulatory body) so as to make a comparison with the Spanish market (due to its cultural proximity and affinity in market mechanisms) in the years 2008/2009. Since the number of complaints in Portugal is significantly lower than in Spain, and as we observe that they have dropped throughout the years, we decided to include the year 2007 in the Portuguese data so as to lessen this discrepancy.

With the data provided by these institutes, we created a database with the following fields: number of complaints, type of infraction, type of source, offender's sector of activity, media where the advertising was placed. After comparing these data, an in-depth individual interview was conducted with the Chairman of ICAP, in order to try to explain some of the discrepancies detected between the two markets.

## Results

As we can see in the chart, the volume of complaints is substantially lower in Portugal (3 years). Portugal shows a lower number of complaints, which may indicate a less informed or less demanding consumer. One first explanation regards the difference in size of the population and the existence of consumer bodies (consumer protection associations) which are extremely active in Spain. However, according to the Chairman of ICAP, who we interviewed, the explanation lies elsewhere: "various industries are carrying out their sectorial self-regulatory agreements. For example, beer manufacturers signed an agreement and since then the number of complaints related with their advertising has decreased drastically."



*Fig.1 Number of complaints Portugal (2007/2009) Spain (2008/2009)*

Indeed, if we analyze the number of complaints submitted in Portugal, we realize that there was a decrease in 29% from 2008 to 2009, when in Spain they increase 6%.

Analyzing the type of complaint source, we realize that competitors are the main type of source in the Portuguese case (76% of complaints compared with 26% in Spain), and that in Spain consumer protection bodies are the source (67% of complaints submitted versus 19% in Portugal, since we include complaints by individuals). We can conclude therefore that the Portuguese case is characterized by a competitor ethics and not by consumer ethics, unlike the Spanish case.

In both countries we can see that deceitful advertising is one of the main causes of complaint (although it is apparent that there are about twice as many complaints in Spain). We should emphasize the 26% figure regarding the truthfulness principle in Portugal, since many of the complaints on other ethical/legal principles of advertising, such as deceitful advertising, are also included in this statistics. On the other hand, there is a greater concern with the use of minors in Spain than in Portugal.

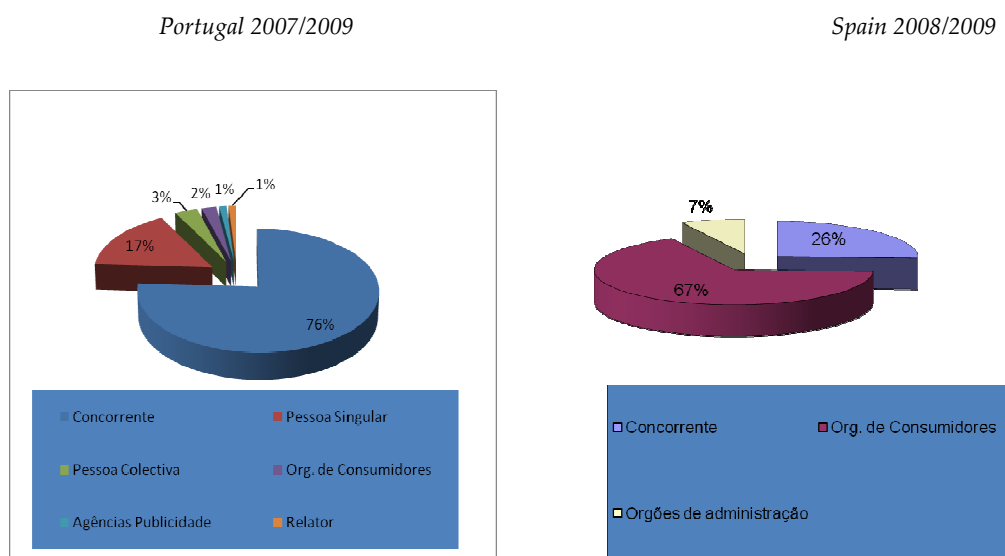


Fig.2 Complaints by type of source

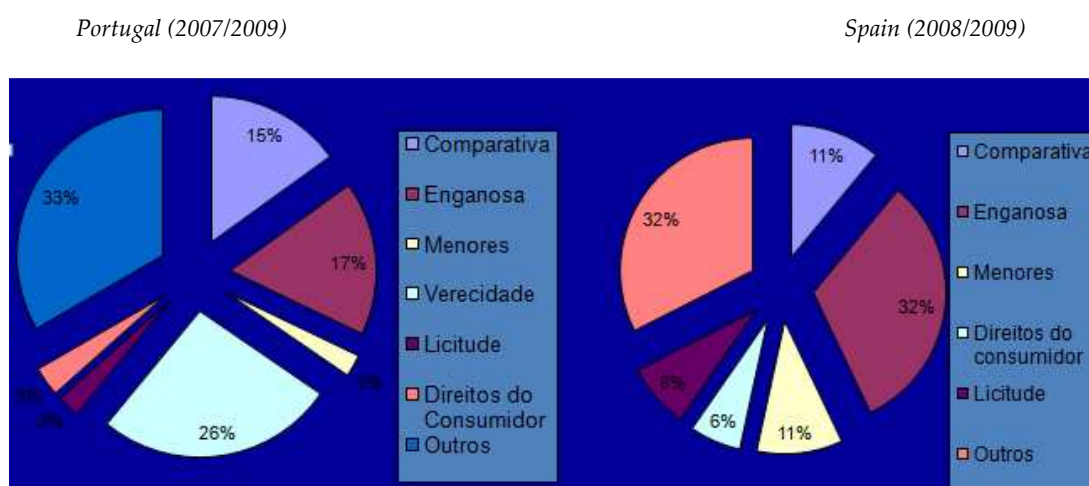


Fig.3 Type of complaint



Fig.4 Complaints by media

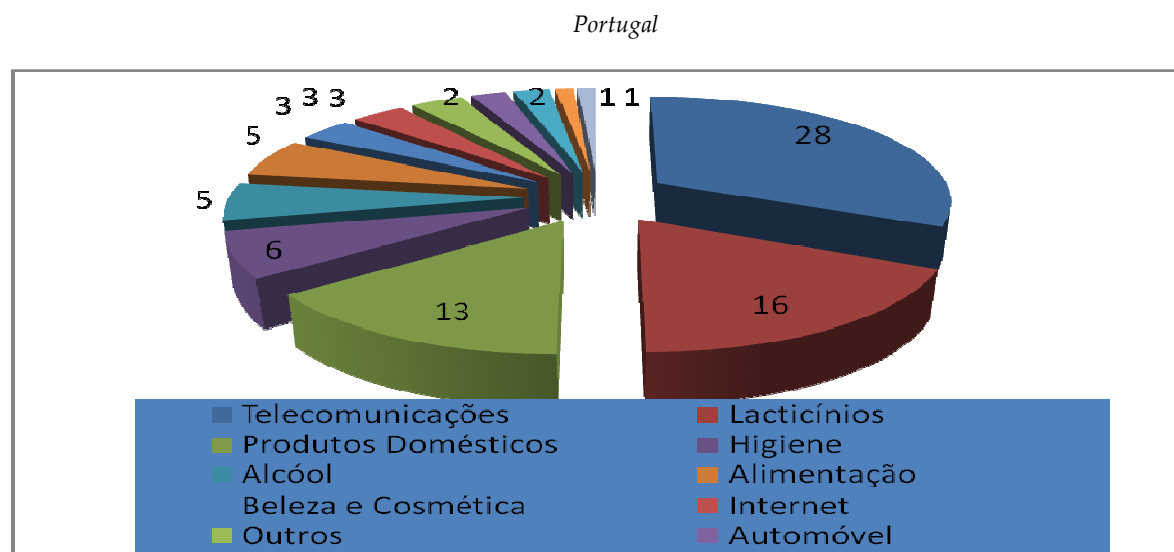


Fig.5 Complaints by business sector

The main medium to convey illicit messages is television. In both countries this is the Medium populations come into contact more (over 3 hours of daily television viewing) and the one which attracts more advertising investment (in the case of Portugal almost 70% of advertising investment in traditional media and in Spain about 60%, according to data of the Mediaplanning Group). One medium that has shown great penetration and an exponential increase in complaints is the Internet. At present, it is the second medium with more complaints in Portugal and the third in Spain; these complaints usually refer to promotional advertising which proves to be deceitful. We should also

mention the higher number of complaints involving the Press in Spain, which to a large extent are the same as those concerning television, since it is common to use multimedia campaigns in that country.

Regarding the business sectors that are the target of unlawful advertising, we do not have data on the Spanish market, but since a large part of advertisers are the identical, we believe the data to be similar. The sector which has the highest number of complaints is telecommunications, and here we have two types of complaints: consumers' regarding deceitful advertising, and competitors' regarding comparative advertising. Next we find the dairy industry, namely advertising to functional food, with the complaints coming from competitors. Also household goods, the third group with the highest number of complaints, are targets of competitors' complaints.

## Conclusions

Portuguese and Spanish companies have joined the self-regulatory system not only due to reasons of business ethics inherent to modern societies, but also because this allows them: to timely solve fraudulent advertising communication; to ensure greater credibility with consumers; to generate trust in the business activity; and to complement gaps in legislation (legislative standard).

We realize that Portugal shows fewer complaints, which may indicate less informed or demanding consumers, and which clearly demonstrates that the Spanish consumer associations resort to their self-regulatory body to solve cases of illegal advertising.

The complaints analyzed demonstrate that self-regulation can be a competitive weapon in three Portuguese sectors: telecommunications, dairy products and household goods.

The Internet has had an increase in complaints, a similar situation to that of the other countries; it is now the second medium in Portugal and the third in Spain with the highest number of complaints.

In future research, we aim to compare with other countries, namely the English case – the country with the oldest tradition in self-regulation and the highest number of complaints – among other. We aim to detect existing discrepancies and attempt to explain them in qualitative terms.

## Biography

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## INTERNET ADOPTION IN THE PUBLIC SECTOR: THE CASE OF PORTUGUESE PUBLIC INSTITUTIONS

Faria, Ana

### Abstract

This article is an attempt to create awareness for the use of Web marketing techniques in the public sector. This is a conceptual paper that starts with brief explanations of the basic notions of Public and Web Marketing, followed by a description of how can these two concepts be related. Hereafter, a generalized picture of the electronic presence of Portuguese Public Institutions shall be exposed and, finally, some conclusions are discussed and several ideas for future research are proposed. Besides the fact that Public Managers are now more aware of the advantages of Web Marketing, the key message is that there is still plenty of room for the development of the application of Web Marketing techniques within the Portuguese public sector. This study is useful to public managers who are interested in formulating a strategy that fosters Web Marketing in the public sector. In addition, with the identification of some gaps in the literature, it offers interesting ideas for future research.

**Keywords:** Public Marketing, Web Marketing, Public Administration, Public Sector Marketing, Electronic Presence, Internet

### Introduction

The fact that, in the last few decades, both academics and practitioners are increasingly more interested in the Internet use is reflected in the growing number of studies that recognize the different potentialities and obstacles associated with this new technology (Pinho and Macedo, 2006). Nevertheless, research in the area of electronic marketing has been undertaken mostly in the private sector, focusing considerable attention on consumers' and advertisers' perceptions of the Internet as a marketing communication tool (Napoli et al., 2000). Consequently, "it is important to recognize, and attempt to understand, the growing number of public sector organizations that have an Internet presence" (Napoli et al., 2000, pp. 77).

As a result, the main objective of this article is to generate awareness in favour of the use of Web marketing techniques in the public sector. To achieve this objective in a efficient and effective way, this paper starts with a brief presentation of the basic notions of Public Marketing and Web Marketing, followed by a description of how these two concepts can be related. After this, a generalized picture of the electronic presence of Portuguese Public Institutions shall be presented and, finally, some conclusions are discussed and several ideas for future research are proposed.

### Public Marketing

The fact that, in 2007, the state and public administration accounted for nearly half (46%) of GDP in the European Union, leads to the conclusion that this is an important economic sector that should be taken into account (Kaplan and Haenlein, 2009). However, based on the 2009 overview made by



Kaplan and Haenlein, concerning all the articles that have been published in leading marketing journals, over the last 50 years, regarding the areas of public administration, public sector and social marketing, there is a surprising decline in the research related to this domain in the preceding 10 years.

In this investigation, the authors revealed that most of the studies in this field were conducted between 1970 and 1984 and, particularly, the diffusion of marketing thinking into public administration is covered by only nine articles. They believe that this small level of research can be partly explained by a misunderstanding between the disciplines of marketing and public administration. Consequently, they affirm that being public administration more concerned with the overall interest of society, its mission might appear to be contradictory to the goal of marketing that is seen by some people as mainly concerned with the satisfaction of private interests and profit. Nonetheless, Kaplan and Haenlein state that, besides the fact that public marketing is different from marketing for profit organizations, there is a place for the application of marketing concepts and tools in public administration.

Before going any further, it is crucial to define first what is public sector marketing. Consequently, at the eyes of Buurma (2001), public policy marketing can be defined as the marketing exchanges between government and citizens that meet both prerequisites of marketing and public administration, in this way, the usual marketing tools can be used in the public sector with specific adaptations (see appendix 1 for examples of these applications).

This definition is consistent with the findings of Graham (1994), which states that the literature strongly supports the idea of the appropriateness of marketing in the public sector. Even so, the author points out three main difficulties in its actual application: marketing can be misunderstood by the public sector when is not sold properly or when there is a misunderstanding of its integrated nature; the product is qualitatively different; and there is a difficulty associated with customer identification. Furthermore, Walsh (1994) affirms that the development of marketing so that is appropriate to the public realm, should be viewed through the distinction between marketing as a collection of techniques, marketing as an integrated set of ideas, and marketing as a language. Based on this, the author argues that the use of marketing techniques such as, for example, surveys concerning public attitudes and values, have contributed undoubtedly to the improvement of decision making and responsiveness of public services. In contrast, marketing as a set of ideas is rather difficult to apply, since concepts like profit cannot be dropped without specific adaptations. Lastly, Walsh states that the language that is used in commercial Marketing is dangerous for the public service, consequently, public marketing should develop a language that is defined by the specific nature of the sector.

Considering the nature of public sector marketing, Walsh (1994) sees it under three headings: the growth of consumerism, the adoption of strategic marketing; and the use of promotion. The growth of consumerism is seen by this author has the centre of the changing management of the public services, since before that consumers of public services were not seen as customers with rights and

needs that must be satisfied. He believes that the public service must function on “explicitly market-oriented principles of price, exchange and competition, involving the development of user choice, contracting out, quality-based management systems, market-testing and internal markets” (Walsh, 1994, pp. 64). In addition, he also asserts that the introduction of consumerism in the public service brought decentralization, customer-consciousness, improved communication, a more variety of choice and systems of redress. On the other hand, according to this author, the adoption of a strategic marketing management was developed in response to the fact that public service organizations do compete, not only within the public sector (e.g. public hospitals), but also with the private sector, therefore, they must operate through market principles. Finally, this investigator also points out the fact that today governments are one of the main purchasers of advertising.

Moreover, Cervera et al. (2001) calls the attention for market orientation in the public sector, which is considered by them as “those activities of generation – to understand the market – dissemination and response to market information to satisfy citizens” (Cervera et al., 2001, pp.1278). Derived from this, these investigators developed a market orientation model for the public administration, which tests the construct and its antecedents and consequences. They found that the antecedents can explain why some local governments are more market oriented than others and that market orientation influences public organization performance.

Linked to the concept of market-orientation is the notion of internal marketing (IM) (Ewing and Caruana, 2000). These authors position is that the central idea of IM stays in acquiring and retaining customer-oriented employees. In this sense, they try to explore the different applications of this concept in the public sector. Accordingly, they identify three types of public organisations, based on their levels of IM orientation: the “Comprehensives”, which represents more than a half of the studied sample (56%), and are characterised by their strong emphasis on communication and training; the “Underdeveloped”, which is the smallest of the three groups (16%), are usually financial management, transport and public policy organisations, and seem not to actively practice internal marketing; and the “Intermediates”, that represent 28% of the sample and are commonly related to tourism, agricultural and services. This last group has potential to have a higher level of IM, however face obstacles like decentralized and/or small organisational structures.

In addition, Whelan et al. (2009) consider customer orientation (CO) as another essential factor for the marketing and branding of public organisations. They defend that contrary to the private sector, where the goal is to increase the number of customers, the purpose of branding in the public sector is related instead to the improvement of public needs responsiveness. Therefore, from a study of the employees and customers of a public hospital, the investigators found that corporate brand personality mediates the positive relationship between employee customer orientation (ECO) and satisfaction, while ECO influences brand personality, which in turn influences satisfaction. In addition, their findings indicate as well that organization customer orientation (OCO) influences customer, but not employee, satisfaction.

Finally, there is also another important movement in public marketing that must be presented, that is New Public Management (NPM). NPM has to do with the “application of concepts known from the management of private companies to public administration” (Kaplan and Haenlein, 2009, pp. 202). According to these investigators, this new trend is related with the concepts of customer and market-orientation, in the sense that citizens are seen as customers with needs and expectations. Consequently, Kaplan and Haenlein affirm that there must be a constant exchange between citizens, private organizations and democratic leaders through, for instance, referendums, e-government initiatives and mixed networks of public and private institutions, so that citizens stop being simply passive consumers and start participating on the definition of what public administration should do, how they should work and be controlled, and who should benefit from their actions.

## Web Marketing

Sharma and Sheth (2004, pp. 696), affirm that “Internet marketing is similar to agricultural-age marketing, with direct recurring relationships between consumer and producer”. According to these authors, the Internet is capable of adapting to customer’s needs, reduces transaction costs and allows customers to move from time and location-based behaviors to nontemporal and nonlocational behaviors. In the same line, O’Connor and O’Keefe (1997) see the Internet as an electronic marketplace, that can be particularly interesting for small companies. Moreover, the interactivity that the Internet is able to present can be translated in a fast growing medium able to offer extraordinary benefits in the electronic mass media, in respect to management of content, lower costs per unit of promotional time, high degree of interactivity and low lag feedback and dialog (Tiwana, 1998).

In fact, numerous managers, researchers, and academics have not yet carefully thought about the huge potential that the Internet has in transforming a prospective buyer from a merely passive surfer into an interactive customer (Berthon et al., 1996). Nonetheless, concerning the adoption of Web-Marketing, some authors state that the Internet must play a part in the company’s marketing and strategy plan (Lynn et al., 2002; Constantinides, 2002).

Lynn et al. (2002), conducted an empirical study aimed to discover what companies can do to increase the adoption and effectiveness of Web Marketing. In respect to the adoption, their findings reveal that younger marketing personnel are more likely to adopt the Web. Concerning effectiveness, they found that the Web can be positively influenced by four factors: formal training about the Web; perceived usefulness of the Web; IS/MIS (Information System/ Management of Information System) influence on marketing; and support of an effective relationship between the IS/MIS organization and marketing.

In respect to the application of the Internet in the marketing field, Joseph et al. (2001) identified four main areas: “advertising and promotion”, which is the most common use of the internet by several kinds of organizations; “servicing customers and channel members”, where the company official Web site plays a crucial part; “conducting marketing research”, being a more convenient and cost-efficient channel; and “selling and buying”, through for example virtual stores.

Furthermore, Constantinides (2002) argues that the traditional 4Ps Marketing Mix framework is a poor strategic choice in respect to online environments, since it has two main limitations. First, in the virtual marketing process the 4Ps are not the critical factors, as the effects that they have in these environments are much more limited than in physical ones, therefore, they are seen as simply elements of the total Web experience. Second, the framework ignores the dynamic strategic elements of the online marketing process, which are considered as extremely important for survival in volatile and fast-changing virtual markets. As a result, the author proposes an alternative 4S Web marketing Mix framework that enables marketers to solve these strategic and operational issues. The 4S elements of the model (Scope, Site, Synergy and System) represent the sound and functional conceptual basis for designing, developing and commercializing E-commerce project (consult appendix 2 for more details).

At last, Sharma and Sheth (2004) exposes some of the changes that the Internet causes in customers behaviours, as well as some constraining factors that might impact the growth of the Internet use. They highlighted six possible changes in consumers behaviour: "Cocreation", customers play a key role in the fulfillment process, leading to an increased customer-firm interaction; "Geographic versus universal availability", customers use the Internet to reduce some of their locational dependence; "Self access versus infomediary", infomediaries are retail stores on the web that allows customers to obtain and compare information and also perform transactions (e.g. Amazon); "Fixed versus flexible times", Internet allows customers to seek more rapid access to information; "Closed versus open pricing", the Internet allows consumers to have easy access to pricing data; and lastly, "Bricks versus clicks and bricks", the authors expect that customers will use the brick to click purchasing pattern, i.e., they expect that consumers will buy on the Internet from firms with brick stores.

In relation to constraining factors to Internet growth, Sharma and Sheth (2004) state that they are mainly two: "Continued cost and tax advantage", i.e., Web marketing has cost advantages, however, the question is whether these are sustainable, since the resumption of taxation may decrease Internet growth; and "Privacy, trust and security", i.e., consumers need to trust that firms will not misuse the data related to their individual's web movements.

## **Web Marketing in the Public Sector**

Kramer and Dedrick (1997) believe that the quick evolution of the communications technology advocates unprecedented opportunities for the public sector, while at the same time presents difficult challenges for the managers of this type of institutions. They affirm that, at the present time, technology affects not only how decisions are made and how public sector organizations are structured, but also how people interact with each other. Accordingly, public institutions are now recognizing that information communication technologies can play a critical role on the achievement of their goals (Pinho et al., 2007). In this way, the use of new information technologies in general and the Internet in particular are seen by organizations as extremely relevant tools to successfully satisfy the increasingly demands of today's competitive environment (Pinho and Macedo, 2006). Specifically, the World Wide Web can be considered a particularly useful tool for public institutions, since its

unique capabilities and interactive nature add a new dimension to the process of communicating with current and potential customers (Napoli et al., 2000).

Nevertheless, an important factor that should be taken into account is how do public decision makers feel about the adoption of Internet as a marketing tool. In this way, Napoli et al. (2000) suggests that, besides the fact that there are still some doubts amongst public sector organizations in respect to the value of the Internet in marketing their services, public decision makers that feel a need for their organization to have Internet access, are more willing to adopt the Internet as part of their marketing communication programs. Therefore, these investigators believe that, in one hand, public decision makers need to identify the advantages that the Internet comprises to best communicate and serve their stakeholders; on the other hand, they need to recognize that the number of Internet users is growing quickly and will continue to do so in the future. Furthermore, provided that public organizations share information with a large number of outside contacts, they must adopt technological tools that permit them to conquer communication barriers and improve their reporting ability to external agencies (Kraemer and Dedrick, 1997). Thus, the presence of government agencies and public institutions on the Internet is ultimately different from the presence of private institutions, since it is constructed and operated to accomplish the public benefit and equability (Kim et al., 2008).

There are also some obstacles from the user perspective that should be taken into account by public institutions while developing their Web sites, especially when the Web site contains services and/or transactions. Pieterse et al. (2007) suggest five user-obstacles to personalized e-government services: access, trust, control, privacy, and acceptance.

In respect to access, the authors point out the distinction between three groups of users, according to the intensity of usage and acceptance of applications: the information elite, which is characterized by active information seekers and communicators that are strongly motivated to use the digital media and have a complete and multichannel physical access; the electronic middle class, which is usually the majority of the population (around 55%) in developed high-tech societies. They normally have access through one or two channels (at home and at work) and normally use digital media merely for entertainment and simple applications of information, communication, and transaction; and the digital illiterates, which usually account for 30% of the population in developed high-tech societies and are described as nonusers who do not have access to computers and the Internet.

In relation to trust, the authors believe that this is perhaps the most essential factor in determining acceptance. As for privacy, the investigators state that it is a condition that users sometimes are willing to sacrifice in exchange for recognizable rewards, yet, users still need to be reassured that their personal information is not used in ways that they disapprove. In terms of control, they affirm that users like to be able to update and maintain their personal information at any time. Finally, the authors affirm that another vital dimension is the user acceptance, considering it has a prerequisite for personalized electronic government services.

Overall, a large part of the population lacks in motivation, resources, and skills to use computers, Internet, and other digital media (Pieterse et al, 2007). Consequently, addressing these type of issues

will not only improve the quality, but also the effectiveness of Internet marketing strategies for public and private organizations, which in turn will enhance the level of service provided by these organisations (Napoli et al., 2000). Based on the fact that public organisations are supposed to reach the entire population, this is an important matter for government services that could be solved by applying additional effort in providing basic public access sites (Pieterse et al., 2007). In this sense, web sites providing efficient online services need to be supported by an efficient internal organisational structure with clear orientation towards the individuals needs (Pinho et al., 2007).

### **The adoption of Internet presence by Portuguese Public Institutions**

In order to make the European Union the most competitive and dynamic knowledge-based economy in the world, in December 1999, the European Commission promoted the eEurope programme followed by the eEurope Action Plan 2002, which provided a detailed description of actions that should be undertaken under a deadline (Pinho and Macedo, 2008). In line with these initiatives, the Ministers Council meeting n°22/2001 determined the execution of a periodic evaluation of the Internet Web sites belonging to the organisms that are directly or indirectly administrated by the State (UMIC & Accenture, 2003). Furthermore, there is also a complementary publication, called "Guide to Best Practices in Building Web Sites that are directly or indirectly administrated by the State" (Oliveira et al., 2003).

The first document (UMIC & Accenture, 2003), was developed by the company Accenture and it consisted on an external evaluation (through online observation and use of external tools) and an auto-evaluation (through the fill of questionnaires by public organisations). The criteria of evaluation took into account the update of the contents, accessibility, navigability, conveniences for citizens with special needs and online services.

Concerning the update of the contents, the report revealed that 50% of the analysed Web sites have a good level of updated statistics and publications. Furthermore, 39% presents a list of the events that they participate and/or organize.

In terms of accessibility, all the Web sites analysed are accessible through Internet Explorer 5, being the majority also easily reached through other browsers. In relation to their presence in search engines (e.g. Sapo, Aeiou and Yahoo), 76% are present in more than two, appearing in 90% of the cases on the first tentative, and almost always on the first place. In contrast, the accessibility for citizens with special needs only presents the minimum level established by the World Wide Web Consortium (W3C) in 46 cases.

Based on the fact that 67% of the Web pages does not have a map, or even their own search engine (70% in this case), the navigation turns out to be more difficult.

As for online services, the report concludes that only one third of the Web sites have available a channel for suggestions and complaints, and merely 0,67 offer the possibility to do online payments. Additionally, the information about which services are given by the organism is not always indicated, as well as sections such as Frequently Asked Questions and privacy and security policy.

Finally, from the emails sent to 297 organism, 102 answered quickly and 18 answered in a reasonable period of time (between 5 and 15 working days).

Overall, from all the recommendations mentioned above, there is also a need to use a simpler language and have alternative texts and graphic representations for citizens with special needs.

### The City Councils Portuguese Case

According to Jong and Lentz (2006), the usability of municipal Web sites is a critical factor in the communication between local governments and citizens, since they: enable municipalities to transmit big amounts of information at a relatively low cost; allow to maintain an unambiguous and easily recognizable dissemination channel with their target groups; offer a 24/7 service; and stay alert to the needs, opinions, and preferences of the citizens. Furthermore, these authors also affirm that one of the interesting aspects of municipal Web sites is that the need to reach a presence on the Internet is roughly the same for all municipalities across western democratic countries, whereas the way that the Web sites are actually designed appear to be very different.

Regarding Portugal, every two years, the Study Laboratory of the Development of the Information Society (Gávea) presents an evaluation of the city councils Web sites, analyzing its evolution in relation to the previous years. The methodology followed for the evaluation is based on a four level model, where level one is “publication of information”, level two is “forms download”, level three is “download and upload of forms and process consultation”, and, finally, level four is “transactions and existence of online payments and respective process follow-up”.

The figure presented bellow exposes the evolution on the number of existent city council Web sites. As it can be seen, the number of municipalities with official Web site has been increasing over the last decade, reaching in 2007 a total of 306 Web sites, out of 308 municipalities. In this year, only Velas and Ourique City Councils did not have an official Web site. However, today they already exist.

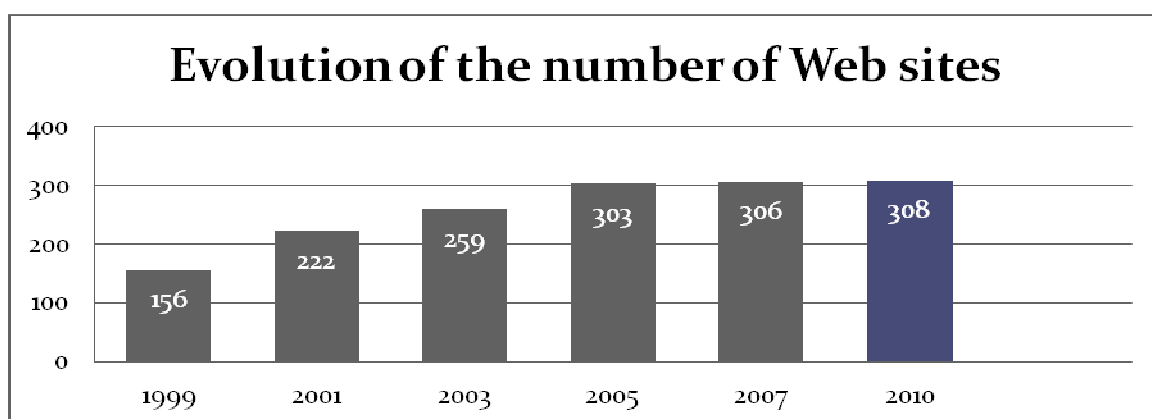


Figure 1: Evolution of the number of Websites

Source : Adapted from Santos and Amaral (2008, pp. 5)

According to this report, the presence of the city councils on the Internet is been evolving both qualitatively and quantitatively. At the quantitative level, it can be verified by looking at figure 1 that the number of Web sites is increasing when compared to previous years, however, it is important to notice that from the 306 addresses, only 287 (94%) were actually online, being the others under construction, or under reconstruction, or with an error on the access. Another quantitative aspect that has also improved relates to the number of replies to emails sent: 44.48% of the municipalities responded to a "simple message" in less than 24 hours (35.51% in 2005). The response time for a "complex message" also improved, rising from 7.17% responses in less than 24 hours in 2005 to 20.78% in 2007.

In qualitative terms, were also recorded improvements at all levels: the highest level of maturity (level 4) now has two municipalities (there was only one municipal council in 2005). The next level of maturity (level 3) has expanded to 16 more municipalities, registering a rise from 60 municipalities in 2005, to 76 in 2007. The same trend was observed in level 2, which now counts with 127 municipalities (in 2005 there were 92 municipalities to provide forms for download). Another factor that attests to the quality improvement of the Web sites of local councils relates to the rise in the index of maturity in relation to 2005 - rising from 1.57 to 1.86 of a maximum of 4.00. It appears that there is still a direct relationship between the index value obtained and the class size of the city council: very large Municipalities (Class A) achieved the highest index value, 2.37; large municipalities (Class B) reveal a very close value to Class A, 2.36. Class C, presents a index of 1.93 and, finally, the municipalities of Class D reach an index value of 1.58, which is a value below the national average. Looking at the maturity index by district, we have on the first position the district of Faro, followed by Santarém and Lisbon. Besides these three districts it was also verified some other districts above the average (1.86 points): Setúbal, Porto, Leiria, Braga, Guarda and Aveiro.

Overall, despite these improvements in all aspects evaluated, the authors of this study believe that there is still a lot of work to be done. It is true that there is a constant upgrading since the first study in 1999, however, the pace of improvement is still very slow. Nevertheless, the researches highlight the work of some local authorities that besides the differences between them, they reveal to be excellent examples of Web presence.

## Conclusions & Future Research

As said before, the main objective of this article is to create awareness for the use of Web marketing techniques in the public sector. To do so, it is presented a brief description of the basic notions of Public Marketing, considering its importance for the economy, how is the research evolving over the last years, how appropriate is the application of marketing techniques in the public sector, what are the main difficulties in its actual application, what is the nature of public sector marketing, how important are the concepts of market orientation, internal marketing (IM) and customer orientation (CO), and what is this new trend called New Public Management (NPM). The same strategy was adopted in respect to the description of the basic notions of Web marketing. Consequently, it is presented ideas related to the definition of this concept, which factors have impact on its adoption



and effectiveness, what are the applications of the Internet in the marketing field, the 4Ps Marketing Mix framework, what are the changes that the Internet causes in customers behaviours, and what are the constraining factors that might impact the growth of the Internet use. After this, it is offered an explanation of how these two concepts can be related, followed by a generalized picture of the electronic presence of Portuguese Public Institutions.

In respect to the limitations of this article, it can be said that due to its conceptual nature, all the limitations associated with this fact can be applied. Additionally, one of the most striking weaknesses of the current research is the fact there are not many research articles dealing with Web marketing in public organizations.

Since both evaluations presented in this paper (UMIC and Accenture, 2003; Santos and Amaral, 2008) are not based on marketing principles, there are still a lot of aspects that can and should be taken into account in future studies and evaluations, such as the interface usability testing, where a target user is asked to use the Web site and conduct realistic user tasks and then verbalize their thoughts while working (Ivory and Hearst, 2001); citizen satisfaction level; number of hits; customers segmentation, to know what type of citizens are consulting public institutions Web sites, and for what reasons (e.g. to simply gather information, or to perform complex transactions); and what type of problems are public institutions facing when trying to apply Web Marketing strategies.

Furthermore, it was also verified that some Portuguese public intuitions are present in online social networks (e.g. Twitter and YouTube), and promote its presence on their official Web sites. One example of this strategy is the Portuguese Department of Taxation Web site. Based on this, it should be interesting to analyse if this is a unique case, or if there are in fact several Public Institutions using this new type of communication strategy. If so, it would be important to discover the effectiveness of these new strategies.

Moreover, for example, the Portuguese Health Web site offers the opportunity for citizens to book their appointments online, or to see in what place they are in the waiting list for a medical intervention (e.g. surgery). Therefore, it would be important to analyse if citizens are actually using this services and if yes, who they are.

Finally, cross cultural studies should be also conducted in order to discover different perspectives towards the application Web Marketing techniques in the public sector.

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## Appendix 1

### Definition and exemplary application of traditional marketing tools within public administration

<i>Marketing tool</i>	<i>Definition</i>	<i>Example</i>
<i>Product</i>		
<i>Variety</i>	<i>The number of different classifications of goods carried in a particular merchandising unit</i>	<i>Different types of European drivers licenses (e.g., category A for motorcycles, category B for cars, category C for lorries and trucks, category D for buses)</i>
<i>Product quality</i>	<i>The measure of any particular attribute a product has or of the intended customer's reactions to that attribute</i>	<i>Euro banknotes introduced by the European Central Bank in 2002 are considered to be of higher quality and to have better security features than the country-specific banknotes they replaced (e.g., hologram and glossy stripes)</i>
<i>Product design*</i>	<i>Idea generation, concept development, testing and manufacturing or implementation of a physical object or service</i>	<i>The detailed processes in place in any democratic country that define how new laws and regulations can be proposed, agreed on and modified</i>
<i>Product feature</i>	<i>A fact or technical specification about a product</i>	<i>Biometric passports in Europe contain a combination of biometric features (digital imaging and fingerprint scan) while the US version only includes digital imaging information</i>
<i>Brand</i>	<i>A name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers</i>	<i>The New York Police Department generated worldwide awareness for its brand logo "NYPD"</i>
<i>Packaging</i>	<i>The process by which packages are created. Occasionally, it is used as synonymous with package</i>	<i>The city of Vienna (Austria) offers a welcome package to all new immigrants consisting of a welcome folder (welcome letter, city map and information leaflets) and</i>

		<i>an orientation meeting</i>
<i>Marketing services</i>	<i>The functions needed to service channel intermediaries and/or end customers, such as inventory planning and control; order processing, shipping and delivery information; product installation, maintenance, repair, replacement and warranty administration; and answering customer inquiries</i>	<i>In Belgium, a citizen has the option to obtain a new passport faster than the usual waiting time by paying between three to five times the standard list price</i>
<i>Warranty</i>	<i>A statement or promise made to the customer that a product being offered for sale is fit for the purpose being claimed. The promise concerns primarily what the seller will do if the product performs below expectations or turns out to be defective in some way</i>	<i>In the US, the Bureau of Engraving and Printing asserts that bills that are mutilated beyond repair can be redeemed for new ones free of charge</i>
<i>Marketing tool</i>	<i>Definition</i>	<i>Example</i>
<i>Price</i>		
<i>List price</i>	<i>The selling price for an item before any discount or reductions in price</i>	<i>Prices for standard public administration services (e.g., driver's licenses, identity cards and passports)</i>
<i>Discount</i>	<i>A reduction in price</i>	<i>In France, a 20 Euro discount (tax reduction) was offered in 2008 to all citizens handing in their tax declarations online vs. paper-based</i>
<i>Trade allowance</i>	<i>A short-term special offer, made by marketers to channel members as an incentive to stock, feature, or in some way participate in the cooperative promotion of a product</i>	<i>In Switzerland, the Federal Office of Public Health distributes leaflets, posters and other promotional materials free of charge to promote influenza vaccinations</i>
<i>Payment period*</i>	<i>The period until payment is due</i>	<i>In Germany, corporations have to pay sales taxes immediately when billing except for companies with a total annual turnover of less than 250,000 Euro, who have to pay sales taxes only when their bills are paid</i>
<i>Credit terms*</i>	<i>Agreed upon rules, governing the number of days between delivery and payment, discounts for early payment and penalties for late payment</i>	<i>In the Czech Republic a late-tax penalty corresponding to an annual interest rate of 73% is applied for the first 500 days of late payment</i>
<i>Promotion</i>		
<i>Advertising</i>	<i>The placement of announcements and persuasive messages in time or space purchased in any of the mass media by business firms, non-profit organizations, government agencies, and individuals who seek to inform and/or persuade</i>	<i>In Australia, the Department of Employment and Workplace Relations designed the _Work Choices_ campaign in 2005 to inform and educate the</i>

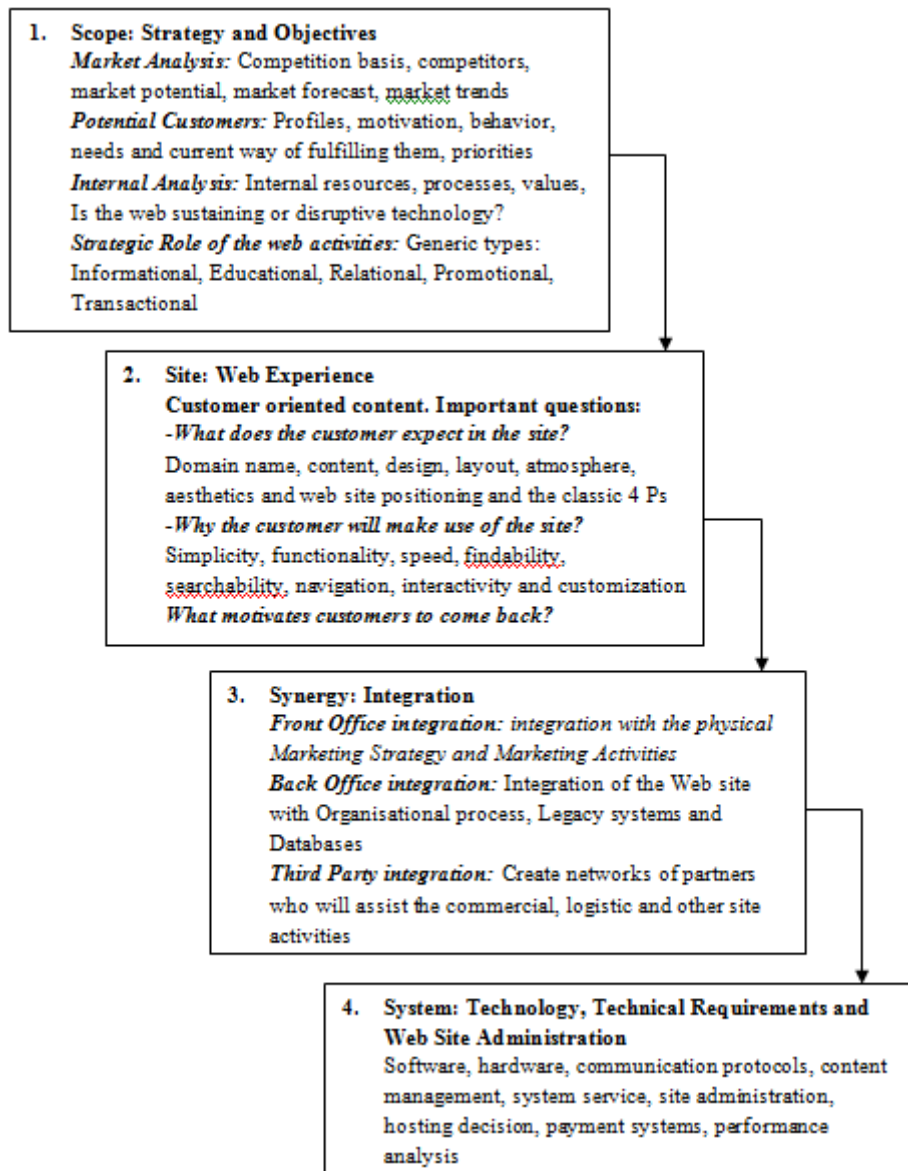
	<i>members of a particular target market or audience about their products, services, organizations, or ideas</i>	<i>Australian public of proposed major reforms to Australia's workplace relations system</i>
<i>Sales promotion</i>	<i>The media and non-media marketing pressure applied for a predetermined, limited period of time at the level of consumer, retailer, or wholesaler in order to stimulate trial, increase consumer demand, or improve product availability</i>	<i>In Spain, government regularly offers short-term (e.g., three month) illegal immigrant amnesties during which a limited number of illegal immigrants can register for legal papers to live and work in Spain</i>
<i>Personal selling</i>	<i>Selling that involves a face-to-face interaction with the customer</i>	<i>Open days carried out by police stations in several different countries in order to inform about their activities and to build a relationship with the citizens</i>
<i>Publicity</i>	<i>The non-paid-for communication of information about the company or product, generally in some media form</i>	<i>In the US, the White House Press Secretary is responsible for collecting and disseminating information about the President to the media</i>
<i>Marketing tool</i>	<i>Definition</i>	<i>Example</i>
<i>Place</i>		
<i>Channel of Distribution</i>	<i>An organized network (system) of agencies and institutions which, in combination, perform all the functions required to link producers with end customers to accomplish the marketing task</i>	<i>In Estonia, the worldwide first election for local government council using the Internet was conducted in 2005. In 2007, the e-voting software was used for conducting the legislative elections</i>
<i>Market coverage</i>	<i>The number of available outlets in a given line of retail or wholesale trade, relative to a saturation level, that are selling a manufacturer's brand in a given market area</i>	<i>In France, there are over 36,000 communes (i.e., municipalities), covering between zero and over two million citizens. Each commune fulfils the same duties, (e.g., the distribution of construction permits) and has its own municipal council and mayor</i>
<i>Assortment</i>	<i>The range of choice offered to the consumer within a particular classification of merchandise</i>	<i>In Germany, the Federal Employment office no longer only offers jobs within a certain region but within the whole of Germany</i>
<i>Location*</i>	<i>The actual place where the physical building stands</i>	<i>In France, various buildings housing public administration functions located in city centres were sold and replaced by alternative locations in the suburbs</i>
<i>Inventory</i>	<i>The goods or merchandise available for resale</i>	<i>Many countries, such as Switzerland, are able to distribute iodine tablets to their citizens in</i>

		<i>case of a nuclear war, implying that a sufficient quantity of such tablets is stored in various locations in the country</i>
<i>Transportation</i>	<i>A marketing function that adds time and place utility to the product by moving it from where it is made to where it is purchased and used</i>	<i>In 2006, the US Air Force helped to transport more than 80 metric tons of food and emergency relief supplies to flood victims in southeastern Ethiopia</i>
<i>Notes: All definitions stem from the AMA (American Marketing Association) Dictionary of Marketing Terms, except for terms marked with an asterisk. The remaining definitions as well as the list of Marketing tools included are adapted from Kotler et al. (2008)</i>		

*Source: Kaplan and Haenlein (2009, pp. 203 and 204)*

## Appendix 2

### The 4S Web marketing Mix model



Source: Constantinides (2002, pp. 63)

## RELATIONSHIP BETWEEN CONSUMER NEEDS AND BRAND BENEFITS AS PREDICTOR OF AD PREFERENCE

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### Abstract

This research aims at testing the role of general consumer needs in ad preference. Four ads for two branded products of different product categories were created. An online questionnaire to determine participants driving needs and created ad preferences was disseminated among students. 190 responses were collected. Results show correlation between higher emphasize on certain type of need and higher appreciation of the ad using an appeal related to that need. The contribution of this paper is that it measures the fit between basic human needs and brand benefits expressed by brand appeals. By testing the influence of general consumer needs, instead of product related needs, the research contributes to discovering more efficient advertising and brand positioning. The study was conducted on only one homogeneous group of respondents and it was not possible to fully control for other ad stimulus and respondent characteristics that apart from identified ad appeals might influence ad preference. Practitioners are advised to invest time and energy in determining their target consumers' driving needs and then choose ad appeal that best fit those needs. Because ad appeals create brand's identity core, decision on appropriate appeal should not be left for marketing agency to be decided upon.

**Keywords:** Brand benefits, Ad appeals, Consumer needs

### Introduction

Advertising appeals are impulses or stimulations which are used to activate desire and emotions which, generate a need for advertised goods (Sudar and Keller, 1991). An ad always comprises one or more appeals which are attractive to target group of consumer with the purpose of gaining positive feedback. They are, before all, motives which imply certain actions or states which are attractive to a consumer. In a broad aspect, ad appeals are divided into two groups: informative and emotional appeals.

Informative appeals are based on practical, functional or immediate need for a product or service and they emphasize product characteristics and its advantages. Rational based appeals contain much information about a brand. Mostly used ad motives in that case are: commodity, health, quality, durability, efficiency, product advantages etc (Kotler and Armstrong, 1994). Many advertisers consider informative appeals inferior to emotion based appeals (Belch and Belch, 2004). A lot of consumers' purchasing motives are connected to their emotions, so their view of a certain brand and



their attitude concerning it will be more important than product facts and characteristics. Advertising using emotional appeals is more efficient because an ad being viewed creates an emotion like fear, safety, love, happiness, excitement, sadness, pride, respect and affiliation. Evoked emotion is then associated to the advertised brand and is by consumer remembered as appropriate for stimulating or preventing evoked emotions. As a consequence, consumers' inclination towards a brand is created.

This research will give empirical evidence how a simple choice of advertising appeals influences brand perception and brand appreciation. The aim of this research will be to test whether there is a connection between the type of appeal used in the advertising and the advertising preference. This will be conducted by introducing a fit between ad appeal and general consumer needs as a predictor of ad preference.

## **Theoretical Background**

From a bundle of ad appeals by consumer interpreted as a bundle of benefits that a single brand can provide, each consumer spots those brand benefits that fulfil his or her individual needs.

### **Consumer needs**

It is the well established idea that job of marketers is to discover and satisfy consumer needs. However, this concept mainly relates to discovering the concrete consumer needs in relation to a particular product that a company offers. This research goes a step beyond believing that concrete consumer need spring from the basic human needs. More researchers (Maslow 1943, Herzberg 1968, Svitovsky 1968 and others) identified different types of basic human needs. Maslow's (1943) hierarchy of needs, which is the most cited classification of needs, classifies needs from the most essential physiological needs to the most advanced self-actualisation needs. He suggests that at the most basic level, the most essential and primitive needs, which are usually taken as the starting point for motivation theory, are the so-called physiological needs. They include hunger, thirst, sleep and the like. The next level of needs represents safety needs, which are expressed as the need for shelter from any kind of real or perceived threat. The third level of needs is represented by love needs as they were originally named by Maslow, but later rephrased into love and belonging needs or social needs. The fourth level of Maslow's needs refers to esteem needs, which are defined as needs or desires for a stable, firmly based evaluation of oneself based upon real capacity, achievement and respect from others. The highest level of needs, self-actualisation, is characterised by people's wish to fulfil their potential and possibly contribute to their society's overall welfare for the sake of doing good and not for the sake of being recognised and merited by that act.

Later research questioned and negated the hierarchical order of Maslow's needs (cf. Raymond, Mittelstaedt, and Hopkins, 2003; Hofstede, 1980). So, instead of speaking of a hierarchy, it might be more appropriate to speak of categories and cultural determination of the dominant category of needs.

Apart from Maslow (1943), many other psychologists and anthropologists have studied needs as drivers of human decision-making and behaviour. One of the most important and widely cited works

is that of Herzberg (1968). He conducted the study in a working environment and as a result discovered satisfactory needs and dissatisfactory needs. The former motivate people and can enforce the level of satisfaction, but their non-fulfilment will not result in dissatisfaction. The later, which are also called hygiene needs, result in dissatisfaction when non-fulfilled, whereas their fulfilment does not significantly affect the level of satisfaction.

In another study, Scitovsky (1968) classifies needs into a more parsimonious version of Maslow's needs. He differentiates between physiological, social and intellectual needs. Raiklin and Uyar (1996) identified biological and socio-cultural needs, while Ryan and Deci (2000) suggest competence needs, autonomy needs and relatedness needs, especially in a job environment.

The categorisation of needs was also studied from a marketers' point of view, i.e. in terms of consumer needs (e.g. Khalid and Helander 2004). However, such studies mostly deal with very specific situational and product related needs. Because this study is embedded in a social context, i.e. it studies culturally determined consumer differences in brand consumption, it is essential to recognise that consumer needs stem from human needs. Consumer needs are the application of human needs in the consumption process. Therefore, to understand consumer behaviour in the brand consumption process, the underlying needs (i.e. basic human needs) have to be studied. For this reason, Maslow's needs serve as the building blocks of the model in this research.

## **Brand benefits**

It was long assumed that consumers consumed a particular product in the consistent manner no matter the occasion. However, during the 90s, it became obvious that the same object can be used in different ways (Holt 1995) and for different purposes (Sheth, Newman, and Gross 1991). This is because a product is a bundle of features and attributes that provides a bundle of benefits. Initially it was believed that solely functional characteristics of products provide values and benefits to consumers; however, the seminal article by Srinivasan (1979) greatly influenced the discourse and was the start of understanding the concept of a brand as a value provider as well. The terms 'value' and 'benefit' are often used interchangeably in the discourse on brand benefits. However, brand value is also used to denominate the financial value that a brand provides to a company (cf. Interbrand and Business Week 2008; Kapferer 2004), whereas the focus of brand benefit is more on value for consumers. The term brand benefit is thus considered more appropriate for this study and is used henceforth.

Benefits are the personal values that consumers attach to the product or service attributes. In other words, benefits are what consumers think the product or service can do for them (Keller 1993). Brand benefits, as most of the concepts in marketing, have been categorised by several authors. One of the most important categorisations is that of Park, Jaworski, and MacInnis (1986). They recognise functional benefits, experiential benefits and symbolic benefits.

Another categorisation is provided by Sheth, Newman, and Gross (1991), who differentiate between functional value (functional, utilitarian, or physical performance); emotional value (the capacity to

arouse feelings or affective states); social value (the association with one or more specific social groups); conditional value (the utility acquired as the result of a specific situation or a set of circumstances facing the choice maker); and epistemic value (the capacity to arouse curiosity, provide novelty, and/or satisfy a desire for knowledge). Later, Sweeney and Soutar (2001) proposed a reduced categorisation of benefits that consisted of only four values: functional value in terms of performance and quality, functional value in terms of value for money, emotional value, and social value.

In their attempt to classify brand benefits, Kim and Mauborgne (2000) made use of terminology that was more brand specific than that of their predecessors. According to them, brands provide the following benefits: customer productivity (helping consumers to do things better, faster or differently); simplicity (straightforward usage and easier understanding than existing offerings), convenience (availability, ease of consumption and purchase), risk reduction (safety of the product/service consumption process, safety of the investment), fun and image (amusement or enjoyment arising from the use or purchase of the brand) and positive image portrayal (the character, reputation, mental representation, idea or conception of the brand as perceived by the consumer), and environmental friendliness (the capacity of the service to improve or reduce risk to the environment).

Finally, Kapferer (2004, p. 23) also proposed his own types of brand benefits. According to him, a brand can provide its consumers with eight different types of benefits. Starting from the more simple and basic brand benefits, to those consumer specific benefits, they are: identification (providing quick identification of the sought-after products), practicality (providing time and energy efficiency), guarantee (providing a constant standard of quality), optimisation (ensuring customers buy the best value for money), badge (providing confirmation of one's self-image or image presented to others) continuity (providing satisfaction through a relationship with the brand), hedonism (enabling self enjoyment linked to the attractiveness of the brand), ethics (ensuring the recognition of socially responsible behaviour by using brands that propagate such values). Because of their brand specific context, Kapferer's types of benefits will be used in the model of this study.

## **Hypothetical Construct**

From the two theoretical building blocks afore presented (consumer need and brand benefits), in this chapter a hypothetical model will be constructed. This will be done by connecting each of the consumer needs to each of the brand benefits (expressed through ad appeals).

Consumer's safety needs are to a large extent, the reason why brands were introduced in the market. Rather than engaging in a detailed search for information when deciding between competing brands, consumers use brands as clues to indicate product performance (Lim and O'Cass 2001). In such situations, brands provide the benefits of quality guarantee, identification, optimisation, value for money, and search cost reduction (Keller 2003b, p. 9). Obviously, consumers who have higher safety needs appreciate quality guarantee benefits more than consumers who have lower safety needs. For example, according to Erdem, Swait, and Valenzuela (2006), credible brands provide more value to high uncertainty-avoidance consumers because such brands have a lower perceived risk and lower information costs.

H1: The more consumers are driven by safety needs, the more they will like ads that use appeals emphasizing those needs and so implying the brand provides the benefit of guaranty and optimisation.

In order for a brand to be able to satisfy a consumer's social needs, agreement about its meaning is necessary on: its physical make-up, its functional characteristics and its characterisation - i.e., personality (Ligas and Cotte 1999). When these conditions are fulfilled, brands can provide the benefit of identification and social bonding to one's family, community, and/or cultural group (Muniz and O'Guinn 2001). Even identification to a brand-centred group like a brand community, subculture, consumer tribe or brand tribe (Cova and Pace 2006; Veloutsou and Moutinho 2008), be it observable or psychological (Carlson, Suter, and Brown 2007), can often be achieved. Numerous brands even base their existence on providing content for brand communities (Thompson, Rindfleisch, and Arsel 2006), some of the most prominent among them being Harley Davidson (McAlexander, Schouten, and Koenig 2002) and Apple Macintosh (Muniz and Schau 2005). From this elaboration, the following hypothesis can be derived:

H2: The more consumers are driven by love and belonging needs, the more they will like ads that use appeals emphasizing those needs and so implying the brand provides the benefit of belonging and continuity.

Some consumers are more likely than others to use brands mainly because brands help them to express their personal or business successes. However, this is not to say that the symbolism only lies in some particular lifestyle brands like Rolex, Louis Vuitton, Ferrari etc., but rather it is in a consumer's interpretation of brands in general. Proof of this can be found in a study by Coulter and Zaltman (1994). In a brand mapping process, they discovered that consumers connect the strong and dependable Tide detergent to self-confidence. They further claim that such associations to Tide help the brand's consumers to be perceived as self-confident people. Thus, if Tide as an extremely non-personal brand can provide such a benefit for some consumers, then it is plausible that any brand might have this ability. Hence, it can be concluded that a brand's success is not entirely an objective category, but rather depends on subjective perception in a way that:

H3: The more consumers are driven by esteem needs, the more they will like ads that use appeals emphasizing those needs and so implying the brand provides the benefit of confirmation of one's self-image or image presented to others.

Consumers who opt for spiritual, responsible behaviour decisively choose brands that they consider socially, ethically and environmentally responsible. For example, such brand is the retail chain The Body Shop. Its founder, Anita Roddick, explained that her stores are not about which product they

sell, but about a grand idea - a political philosophy about women, the environment and ethical business (Klein 2000). Therefore, it can be concluded that:

H4: The more consumers are driven by self-actualization needs, the more they will like ads that use appeals emphasizing those needs and so implying that brands provide the benefits of hedonism, ethics and similar.

The hypothetical concept is presented in figure 1.

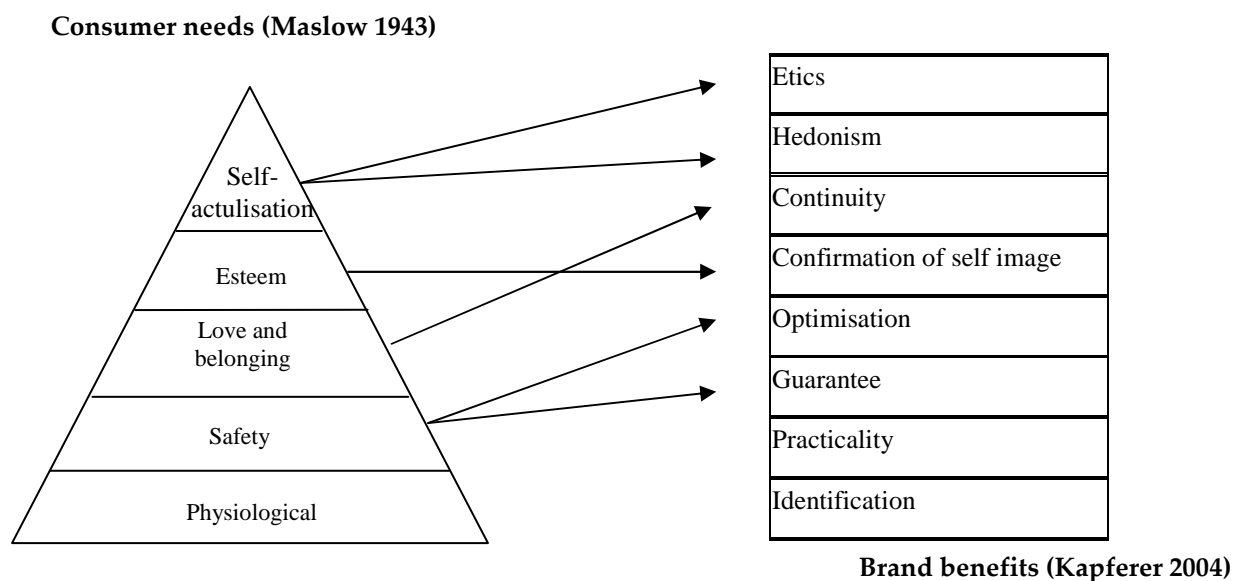


Figure 1. Hypothetical construct

As the graph shows the most basic needs as well as the most basic benefits are not studied in the research.

## Methodology

Research was conducted to empirically validate hypotheses. Research sample consisted of 190 undergraduate students from Faculty of Economics in Rijeka. The research was conducted by an online questionnaire designed with the *surveymonkey* tool.

Questionnaire consisted of two sets of questions. First set of questions investigated relevance of various criteria in profession and partner choice. Each offered criterion resembled one of the four higher Maslow's needs. In other words, each need was evaluated with four criteria, two regarding profession decision making and two regarding partner decision making. This part of the questionnaire was directed to revealing the kind of needs (based on Maslow's hierarchy) that lead the research participants in their decision making. Second set of questions regarded evaluation of eight different ads (figure 2).



Figure 2. Ads for True fruits and Suzuki swift

Four ads were designed for each of the two chosen brands. The first brand was True Fruit beverage, a commodity characterized by a very low buyers' involvement. The second brand was Suzuki Swift, a special product characterized by high buyer's involvement. Each ad for each of the brands used a different advertising appeal resembling Maslow's needs.

## Results

As afore mentioned respondents rated their motives for pursuing career as economists as well as for pursuing an intimate personal relationships. The collected responses were analyzed in order to determine whether they all express the same type of need. For each of the Maslow's higher order needs, four questions were posed. The four items for each of the needs was component analyzed and it was discovered that the items do not represent one component, but rather two. Details are presented in table 1.

Safety need is expressed by two separate variables: the need for safe harbor and the existential need. The need for love & belonging is expressed by: the need for belonging and the need for socializing,

esteem need by: the vanity and the need to be respected, whereas self-actualization need by: the fulfillment need and the need for inspiration.

		<i>safe harbor</i>	<i>existential</i>
<i>Safety</i>	<i>Partner should provide me with a feeling of safety</i>	0,890	-0,071
	<i>Partner should provide support to me</i>	0,844	0,081
	<i>It provides many options for employment</i>	-0,001	0,824
	<i>I will easily ensure my existence</i>	0,004	0,817
		<i>belonging</i>	<i>socializing</i>
<i>Love &amp; belonging</i>	<i>I should feel that we belong to each other</i>	0,821	-0,122
	<i>I should have a nice time with my partner</i>	0,789	-0,084
	<i>I would like to belong to those who develop Croatian economy</i>	0,493	0,188
	<i>My friends chose this faculty</i>	-0,024	0,978
		<i>vanity</i>	<i>respect</i>
<i>Esteem</i>	<i>I should be able to proudly present my partner to my friends</i>	0,878	-0,040
	<i>Partner should make me proud</i>	0,841	0,050
	<i>I can get a respectful job</i>	-0,072	0,877
	<i>I respect people who understand economics</i>	0,089	0,795
		<i>fulfillment</i>	<i>inspiration</i>
<i>Self-actualization</i>	<i>My skills and interests best suit this career</i>	0,901	-0,038
	<i>This career will allow me to fulfill my potentials</i>	0,879	0,041
	<i>Partner should take the best out of me</i>	-0,053	0,858
	<i>Partner should give me energy for all my wishes and duties</i>	0,058	0,819

Table 1. Principal components loadings

Because respondents were not asked to rate whether the offered ads associate them to this particular needs, but rather to the four Maslow's needs, both subneeds will be used in the subsequent correlation analysis.

Figures 3 and 4 show how the respondents on average rated each of the ads in regards to how much they associate them with the four Maslow's needs. Out of all the ads for True fruits, only True fruits 2 and True fruits 4 have a need that is on average strongly emphasized by the respondents. True fruits 2 is associated with love and belonging, whereas True fruits 4 with self-actualization.

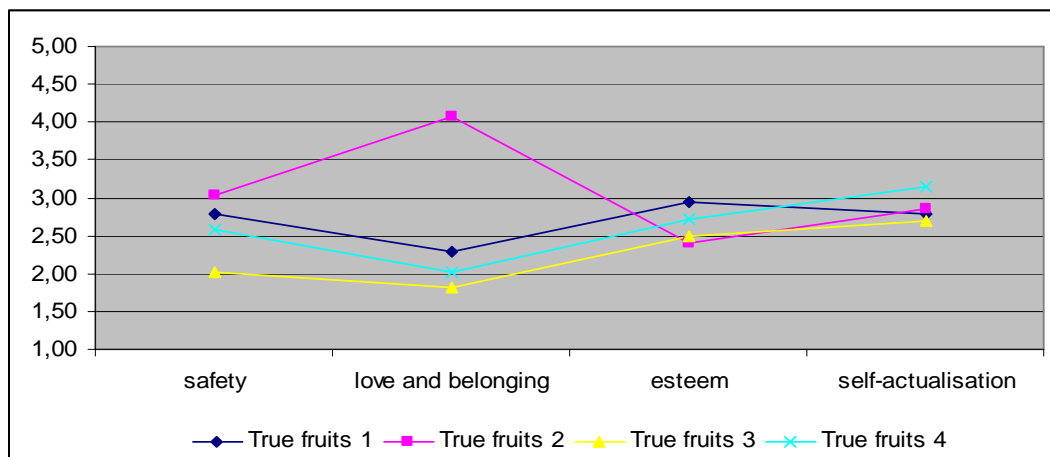


Figure 3. Associations with True Fruits Ads

On the other hand all the ads for Suzuki swift have at least one need that is on average strongly emphasized by the respondents. Suzuki swift 1 is associated with safety, Suzuki swift 2 with safety and love & belonging, Suzuki swift 3 with esteem and self-actualization, and Suzuki swift 4 with self-actualization. For this reason in the hypotheses testing phase, only those ads were taken into account which were clearly associated to certain needs.

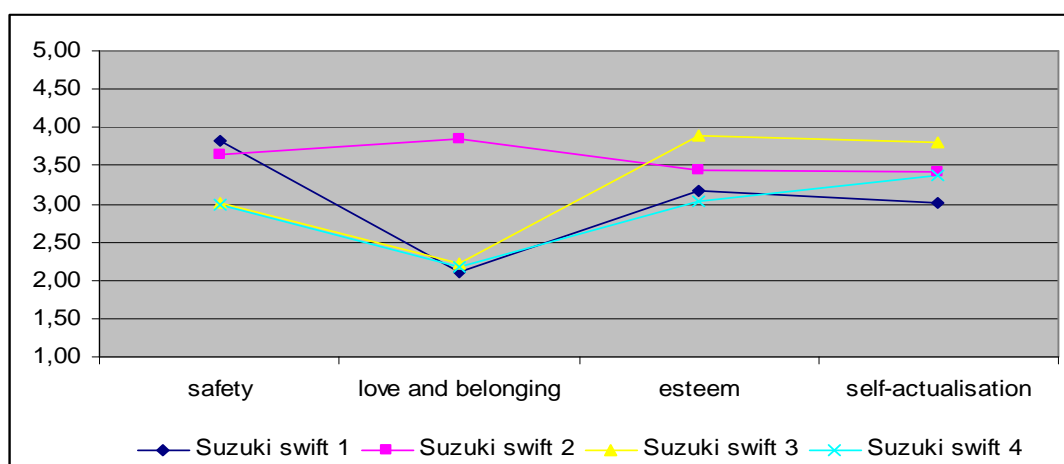


Figure 4. Association with Suzuki Swift Ads

Table 2. shows correlation matrix. The shadowed cells in this table should demonstrate statistically significant correlations between certain consumer need and certain ad preference. The correlation coefficients in bold are those that in fact demonstrate statistically significant correlations.



		True fruits 1	True fruits 2	True fruits 3	True fruits 4	Suzuki swift 1	Suzuki swift 2	Suzuki swift 3	Suzuki swift 4
safe harbor	r	0,058	0,067	0,060	-0,075	0,006	-0,006	0,090	0,029
	s.d.	0,428	0,359	0,411	0,305	0,939	0,940	0,221	0,692
existential	r	0,056	0,094	0,133	<b>0,218</b>	0,020	<b>0,218</b>	0,131	0,040
	s.d.	0,448	0,202	0,069	<b>0,003</b>	0,784	<b>0,003</b>	0,074	0,591
belonging	r	<b>0,205</b>	0,065	0,003	0,049	-0,045	<b>0,160</b>	<b>0,255</b>	0,046
	s.d.	<b>0,005</b>	0,378	0,972	0,501	0,540	<b>0,029</b>	<b>0,000</b>	0,528
socializing	r	<b>-0,259</b>	-0,020	0,022	0,069	-0,059	0,035	0,014	-0,058
	s.d.	<b>0,000</b>	0,782	0,762	0,346	0,420	0,630	0,848	0,430
vanity	r	<b>0,148</b>	0,050	0,057	-0,101	0,090	0,135	0,108	0,028
	s.d.	<b>0,043</b>	0,497	0,435	0,167	0,221	0,065	0,143	0,702
respect	r	0,086	0,037	0,062	<b>0,236</b>	0,088	0,059	<b>0,196</b>	<b>0,182</b>
	s.d.	0,241	0,617	0,397	<b>0,001</b>	0,231	0,420	<b>0,007</b>	<b>0,013</b>
fulfillment	r	0,133	0,079	-0,111	0,029	-0,033	<b>0,221</b>	<b>0,224</b>	<b>0,159</b>
	s.d.	0,068	0,280	0,128	0,691	0,652	<b>0,002</b>	<b>0,002</b>	<b>0,030</b>
inspiration	r	<b>0,168</b>	0,135	<b>0,156</b>	<b>0,155</b>	<b>0,146</b>	0,099	<b>0,158</b>	0,119
	s.d.	<b>0,021</b>	0,065	<b>0,032</b>	<b>0,033</b>	<b>0,047</b>	0,179	<b>0,030</b>	0,105

Table 2. Correlation matrix for ads and consumer needs

In summary, out of 64 tested correlations: 16 should be significant, out of which 7 are ( $p < 0,05$ ); and 48 should not be significant, out of which 11 are ( $p < 0,05$ ). In relative terms, 44% of predicted correlations proved statistically significant, and there were only 23% spurious correlations discovered. This general overview of the statistics proves the relationship between particular consumer needs and preference of ads which emphasize brand benefits aimed at fulfilling those particular needs.

		True fruits 2	True fruits 4	Suzuki swift 1	Suzuki swift 2	Suzuki swift 3	Suzuki swift 4	Hypothesis	Result
Safety	safe harbor			NO	NO			H1	Not accepted
	existential			NO	YES				
Love and belonging	belonging	NO			YES			H2	Not accepted
	socializing	NO			NO				
Esteem	vanity					NO		H3	Accepted
	respect					YES			
Self- actualization	fulfillment		NO			YES	YES	H4	Accepted
	inspiration		YES			YES	NO		

Table 3. Hypotheses testing

Table 3 presents the simplified overview of each hypothesis. It can be seen that the results show weak support for the first two hypotheses, hence they cannot be accepted. The later two hypotheses were better supported and hence they are accepted.

## Discussion and Conclusion

The goal of the research was to examine whether ad preference for a certain brand is determined by the general consumers' needs. It was the contribution of this research to introduce general consumer needs, instead of more researched product-related consumer needs as predictors of an ad preference. Discovering such correlation would be helpful for marketers to make better ads which emphasize consumers' driving needs and are more efficient in targeting their preferences. This again would result in better advertising efficiency and brand's market success.

The results give evidence that this correlation exists. In light of these findings practitioners are advised to invest time and energy in determining their target consumers' driving needs and then choose ad appeals that best fit those needs. Because ad appeals create brand's identity core, decision on appropriate appeal should not be left for marketing agency to be decided upon.

The study reveals several methodological limitations. It was conducted on a homogeneous group. Future studies should include several heterogeneous groups. The second limitation was inability to fully control for other ad stimuli and respondents' characteristics that apart from identified ad appeals might influence ad preferences. Such are the use of humor, colors and symbols, as well as the fit between the ad appeal, the advertised brand and the respondents. Additional insights could be achieved by using the same ad visualization, but different textual messages.

## Biography

**Ivana First** is research and teaching senior assistant for marketing subjects at University of Rijeka, Croatia. She gained her MSc and PhD degrees at University of St. Gallen in Switzerland in 2004 and 2009 respectively. She also studied and conducted internships in Budapest, Stockholm and Frankfurt. Her research is focused on brand management and cross-cultural differences. She has published her research in several international Journals and actively participated at several international conferences, 1st EuroMed Annual Conference in Marseilles 2008 being one of them.

**Filip Gržincic** gained his BSc degree at University of Rijeka in 2007. Since then he worked as marketing manager in Vargon Rijeka and is currently working in the sales and marketing department of a tourist agency Katarina-line Opatija. His professional interest lies in advertising strategy and design.

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## CROSS-CULTURAL BRAND MANAGEMENT AND LANGUAGE CHOICE: RESPONSE TO THE USE OF ENGLISH IN PRODUCT ADVERTISEMENTS IN NON ENGLISH SPEAKING COUNTRIES IN WESTERN AND SOUTHERN EUROPE

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### Abstract

An important but often neglected aspect of cross-cultural brand management is language choice. Should brand managers use the local language of a country in a global campaign or can they use an international language such as English? This article examines consumers' response to the use of English, a language often used in international campaign, in product advertisements in Belgium, France, Germany, the Netherlands and Spain. Respondents were 715 young highly educated female consumers. The study shows that the use of English compared to the use of the local language in product ads does neither have impact on image and price of the product nor on attitude towards the text, but it does affect the comprehension of the text. Respondents were not able to indicate the meaning of 39% of the fragments. For that reason it seems likely that global advertising is more effective if brand managers create advertisements in the local language.

**Keywords:** Global campaigns, product advertisements, English, image, price, comprehension of English

### English in Product Ads in Europe: Frequency of Occurrence and Reasons for Use of English

An important but often neglected aspect of cross-cultural brand management is language choice. Should brand managers use the local language of a country in a global campaign or can they use an international language such as English? This article explores consumer response to advertisements in English in countries in Western and Southern Europe where English has the status of a foreign language: Belgium, France, Germany, The Netherlands and Spain.

Although many aspects of advertisements that could shape reader response have been investigated such as values (Aaker Maheswaran 1997; Aaker and Williams 1998; Hoeken et al. 2003), visual rhetoric (McQuarrie and Mick 2003), relatively little attention has been paid to the role of language choice (Grin 1994; Holden 1987). The majority of the publications on consumer response to language choice in advertising deals with bilingual societies such as the Hispanic Community in the United States

(Koslow, Shamdanasi, and Touchstone 1994; Roslow and Nichols 1996; Luna and Peracchio 2001, 2005). There have been only few empirical studies about reader response to the use of a foreign language in advertisements, although such advertisements are common. Myers (1994), for instance, discusses the use of French, German, Russian, Maori, Dutch and Japanese in advertisements for native speakers of English, together with the use of English in advertisements for native speakers of Spanish, Dutch and German. Kelly-Holmes (2005) gives an extensive overview of the use of foreign languages in advertising in Europe. On the basis of an overview of studies on the use of foreign languages in advertising, Piller concludes that "English is the most frequently used language in advertising messages in non-English-speaking countries (besides the local language, of course)" (Piller 2003, 175).

Different studies show that a large number of the advertisements in Europe do indeed contain English. Cheshire, and Moser (1994), for instance, found that 31% of product advertisements in two Swiss weekly magazines contained English words and phrases. Gerritsen et al. (2000) show that one third of the commercials on Dutch television contain English, according to Martin (2002) 30% of the commercials in France feature some form of English, and Piller (2001) claims that 60-70% of all advertisements broadcast in 1999 on various German television networks and in two German national newspapers were multilingual and that English was the foreign language that was used most often. Gerritsen et al. (2007) studied the use of English in product advertisements in Belgium, France, Germany, the Netherlands and Spain. For each country, ads were collected in six issues of *Elle* in 2004. In total 2384 different ads were analyzed. In all countries more than 65% of those ads contained one or more English words.

The frequent use of English in advertising in Europe is partly due to the fact that such ads are part of a world-wide campaign in which in either the whole ad - or in part of the ad, for example, in the slogan - one language is used. This is done because it saves translation, adaptation and registration costs (Jain 1989; Jain 1993; Floor and Van Raaij 2002; De Mooij 1994; Walsh 1991), and because the advertisers believe that the whole world can be approached with the same concept and the same language. Levitt (1983) was one of the first who propagated global advertising because he believed in the convergence of consumers' behaviour and in the globalisation of markets. A number of researchers, however, have argued against this standardization strategy (e.g. De Mooij 1998; Kanso 1992; Zandpour et al. 1994), most notably De Mooij (2001), who shows for instance that even the young are not a homogeneous target group. It is interesting to note that these discussions about standardization or localization have focused specifically on whether different cultures can be approached with the same advertising concept; they have not been concerned with the specific language that should be used, e.g. English, French, Spanish etc. Not surprisingly, the language that advertisers choose to use in global campaigns is nearly always English. Interviews with advertising agencies responsible for making or adapting ads which were either completely or partly in English (Gerritsen et al. 2000; Alm 2003) have revealed three underlying motivations for this choice.

- Products' image. According to researchers such as Takahashi (1990), Martin (2002), Alm (2003), Piller (2003), Kelly-Holmes (2005), Ustinova and Bhatia (2005) and Shinhee Lee (2006), English is used because it enhances the image of a product. It is associated with a modern way of life all around the globe and it increases the prestige of a product (Friedrich 2002; Griffin 1997; Haarmann 1989). Piller shows that there is a strong tendency to associate the consumers that are described in partly or completely English advertisements in Germany "with all or some of the attributes of internationalism, future orientation, success and elitism, sophistication, fun, youth and maleness" (Piller 2001). In her view, English is also used in order to select the target group, along the lines of "If you read English, fine; if not, you are an outsider. Tough luck" (Piller 2001, 168). English therefore plays a quite different role than that of the other foreign languages that are used in advertising, since the primary aim in using foreign languages such as French, German, and Italian in advertising, is to associate the advertised product with the ethno-cultural stereotypes of the speakers of those languages, and therefore to associate those stereotypes with the product advertised (Piller 2003; Kelly-Holmes 2005). An ethno-cultural stereotype of Italians is for instance that they have delicious pasta, and by advertising (partly) in Italian, the advertiser hopes that the target consumer will associate that positive ethno-cultural stereotype with the pasta being advertised. Piller is brief and to the point in her discussion of difference between the image that English creates and the image created by other foreign languages: "English is thus not used to associate a product with an ethno-cultural stereotype, but with a social stereotype (...) modernity, progress, and globalization" Piller (2001, 175).
- English is an international language. English is chosen as a result of the generally held view that English is a global language (Bailey and Görlach 1986; Crystal 2003; Crystal 2004), and because advertisers believe everyone understands English anyway. In the second edition of *Advertising Worldwide*, de Mooij (1994) states, for instance, "In general, the better-educated throughout Europe, as well as the youth, can be reached with English". She advises, however, that advertisers should use relatively simple English for global advertising "with few words and no colloquialisms, relying heavily on the visual or musical aspects of the message" de Mooij (1994, 205).
- Linguistic aspects. A linguistic reason to use English is that the product is originally from the US or the UK and there is no word to describe its characteristics in the target language, or the word in the target language is much longer or more complicated than the English word (Takahashi 1990; Friedrich 2002). This holds for example for terms related to information technology such as local-bus.

Above we have shown that English is very frequently used in advertising in countries where it is not the native language and we have also indicated why English is used according to advertising agencies. They believe that the target group understands English and that English will enhance image and price of the product. The question is whether they are right. That is why we investigate in this

article whether consumers understand the message conveyed in English and what the effect of the use of English is on the product image and price associated with the product advertised, compared with that of the local language.

## **An Experimental Study of the Effect of the Use of English in Product Ads: Research Questions**

A number of researchers have questioned whether advertisements with English are indeed effective in countries where English is not an official language. Myers (1994) states for instance that one should not assume that English words have exactly the same effect when they are read in a non-English speaking country. Piller (2001) found that in German advertisements with English, the body and the factual information (contact details, declarations) are in German. According to her this signals doubt about the bilingual proficiency of the German audience. For that reason we will investigate the effect of the use of English in ads on a product's image, the consumers' attitude towards the text of the ad, and their comprehensibility of the text of the ad.

According to the literature the use of English words in an ad associates the product with modernity and enhances the prestige of the product. This led to the following research questions.

**RQ1:** To what extent are products presented in advertisements with English more associated with modernity than the same products presented in advertisements in a local language?

**RQ2:** To what extent are products presented in advertisements with English considered to be more expensive than the same products presented in advertisements in a local language?

The attitudes expressed in the literature towards the use of English in advertising in non-English-speaking countries range between two extremes. On the one hand, it is claimed that English is used because it makes the text look more attractive (De Raaij 1997). On the other hand, it is claimed that some of this English usage at least, is considered irritating (Jansen and Rümke 1997).

Experimental research has also shown that the use of English in advertising does not have as favourable an effect on the target groups in terms of attitude as is suggested. Research carried out in 1994 indicated that Dutch, German, Italian, and Spanish respondents, the majority of whom had recently graduated from university, held neither a positive nor a negative attitude towards the use of English in completely English print advertising (Gerritsen 2004). A further study into the attitude towards completely and partly English TV commercials in the Netherlands, showed a similar result (Gerritsen et al., 2000). In all such cases, however, the attitudes towards ads with English, was not compared with ads in the local language. It is therefore possible that the attitudes to the texts reported in these studies was not related to the use of English, but to other characteristics of the text, and that the same text in the local language would have been evaluated in the same way. This led to research question 3.

**RQ3:** To what extent do consumers have a more positive attitude towards advertisements with English than towards the same advertisements in a local language?



Although there is a generally held view that the comprehensibility of the English fragments should not be a problem for at least a number of target groups in Europe, it has been questioned whether the target group does in fact understand the message conveyed (Myers 1994, Piller 2001). A study carried out in 1994 in the Netherlands, Germany, France and Spain showed that there was a large discrepancy between respondents' estimated ability to translate the English used and the actual number of correct indications of the meaning they were able to give. The percentage of the young and highly educated respondents that claimed they could translate the advertisements into their native language was much higher than the percentage of correct indications of the meaning of the English used (Gerritsen 1995; Gerritsen 2004). An experiment with partly and completely English TV commercials (Gerritsen et al. 2000) revealed a similar result. This led to research questions 4 and 5.

**RQ4:** To what extent do consumers claim to be able to understand the English text of advertisements in English?

**RQ5:** To what extent are consumers able to give an accurate indication of the meaning of the English text of advertisements in English?

There are wide variations between the different European Union countries in knowledge of English, for example in reported ability to be able to hold a conversation in English (European Commission 2006, 13 and annexes D48b). For Denmark this was 86%, for the Netherlands 87%, for Germany 45%, for Belgium 59%, for France 36%, and for Spain 27%. Therefore we can expect that the impact of English in ads will vary according to the knowledge of English in a country, the higher the knowledge of English the less impact English will have. This leads to research question 6.

**RQ6:** Are there differences between the countries in the effect of English on

- a. Association with modernity of the product?
- b. Association with price of the product?
- c. Attitude towards the advertisement?
- d. Reported comprehensibility of the English fragments?
- e. Real comprehensibility of the English fragments?

## **Method**

### **Area of research and respondents**

We carried out our experiments in five countries within the European Union: Belgium, France, Germany, the Netherlands and Spain. Since Belgium consists of a Dutch- and a French-speaking part, experiments in Belgium were performed with two groups: Dutch-speaking Belgians and French-speaking Belgians.

The respondents were 715 women living and studying in a large town or city: 120 in Dutch-speaking Belgium (Antwerp), 120 in French-speaking Belgium (Brussels), 120 in the Netherlands (Nijmegen), 120 in Spain (Barcelona), 116 in France (Paris) and 119 in Germany (Duisburg). The

number of respondents was based on a statistical power of .99, a medium effect size of 0.25 and an alpha of .05 (cf. Cohen, 1992).

None of the respondents were studying (foreign) languages. The age of the respondents ranged from 19 to 25 ( $M = 21.8$ ). These female students were used as respondents as they could be considered as representative of the target group of *Elle*, the magazine from which we took our test items, since *Elle* is a glossy magazine for higher educated women with no children, between the ages of 20 and 39 (Wikipedia). Sixty percent of the respondents said that they read *Elle* regularly.

### Materials

We selected three advertisements for our study that ran simultaneously across the five countries six months before we carried out our experiments: Absolut Vodka (vodka), Bulgari (perfume), and Smart forfour (car). The research team worked together to produce equivalent test items in Dutch, French, German and Spanish for the original English texts, and translation and back-translation was used to ensure as close a match as possible (Hoeken and Korzilius 2003).

### Instrumentation

In order to know whether the use of English in an ad has an effect on the image of the product that is advertised, as related to modernity, (RQ1) we presented respondents with a set of 3 adjectives (trendy, innovative and old fashioned) and asked them to complete a 7 point scale (1 agree completely-7 disagree completely). The answers to trendy and innovative were recoded so that 1 stands for old fashioned and 7 for modern. In order to find out whether a product advertised in English would be considered as a more expensive product than one that was advertised in the respondents' own language (RQ2), respondents had to indicate the price of the product on a 7 point scale where 1 was very cheap and 7 was very expensive.

In order to investigate the respondents' attitude towards advertisements with English compared to advertisements in their own language, we presented them with a set of 7 adjectives (functional, irritating, easy, attractive, arrogant, affected, sympathetic) and asked them to evaluate the text on a 7 point scale (1 agree completely-7 disagree completely). The answers to functional, easy, attractive and sympathetic were recoded so that all the scales ranged from 1 as the most negative rating and 7 as the most positive.

In the **comprehensibility** part of the questionnaire, the respondents that saw the original English versions were first asked to indicate on a 7 point scale (1 agree completely -7 disagree completely) whether they could understand a certain English fragment in the ad and whether they would be able to describe the meaning of the English fragment in their own words (RQ4). The answers to both questions were then recoded. The fragments concerned were:

***Bulgari***

Contemporary Italian Jewellers

The new fragrance for women

***Smart***

Eyecatcher

Open your mind

***Absolut***

This superb Vodka was distilled from grain grown in the rich fields of southern Sweden.

Our vodka has been produced at the famous old distilleries near Åhus in accordance with more than 400 years of Swedish tradition

The respondents were then asked to provide a meaning in context, but not a literal translation, for each of these six fragments (RQ5). The team of researchers then met to decide for each individual test item whether or not the translation given could be considered appropriate or not. We differentiated between correct and incorrect indications of the meaning and we took a purposefully flexible approach. If a respondent for example had described the meaning of fragrance with the word for perfume or eau de toilette in the local language we considered the description as correct, but if she had used the word for feeling or sparkling in the local language we considered it as incorrect.

**Design**

Our experiment was a between-subject design for the part that investigated the impact of English on the image of the product and attitude towards the text: half of the respondents, equally divided among the different countries, completed the questions for the English version of the advertisement, and half for the manipulated version in their own language. Only those respondents that were presented with the ads in English were asked if they thought they were able to understand the meaning of the text and whether they indeed understood the English text. This was because, previous research has revealed that respondents do not provide serious answers if they are asked to provide a meaning for text fragments given in their own language.

**Procedure**

The order of questions in the questionnaire was as follows: image, attitude, comprehensibility selfreporting, comprehensibility, and personal details. First all questions about image for all the three ads were answered, subsequently all questions about attitude and so on. The order of the ads in the questionnaire was varied to reduce any carry over effects. The questionnaire was administered to students at different universities in the countries of our research, either in classrooms or in workspaces in the corridors of the universities. The respondents completed the questionnaires individually in the presence of one of the researchers.

### Statistical analysis

For every scale where Cronbach's  $\alpha$  was at least adequate (.70 or higher), we calculated the composite means of the items. This was the case for all the three ads for image (trendy, innovative and old fashioned) and attitude (functional, irritating, easy to read, attractive, arrogant, affected, sympathetic). The two questions about selfreporting comprehensibility were also higher than .70 for all the six fragments. Therefore we calculated composite means for each of the six fragments. Cronbach's  $\alpha$  for all these six fragments together was also adequate too and we therefore calculated one composite mean for selfreporting comprehensibility.

Since all the scales were interval scales, 2 (Version: ad with English or ad without English)  $\times$  6 (Country: Dutch-speaking Belgium, French-speaking Belgium, France, Germany, the Netherlands and Spain) Analyses of Variances were used to test whether ads with English were associated with a different image and price of the product than ads without English (RQ1 and 2), whether consumers had a more positive attitude towards ads with English than towards ads without English (RQ3) and whether there were differences between the countries in these aspects (RQ6a). Since cultures may differ in the way in which they use the extremes of a scale (Hoeken and Korzilius 2003, Herk, Poortinga, and Verhallen 2004, Johnson et al. 2005), all analyses of variance were performed with both standardized and raw data. Since there were no differences in results between the two sets of analyses, we report here the analyses of the raw data.

Finally, Chi-square tests were used to determine whether there were statistically significant differences between the countries in the actual understanding of the six English fragments (RQ7b). The criterion used for statistical significance was .05 for all tests.

### Results

Table 1 shows the means and standard deviations of the answers to the questions that investigated whether the use of English in an ad has an impact on the image of the product that is advertised (RQ1), whether a product advertised in English would be considered as a more expensive product than one that was advertised in the respondents' own language (RQ2) and whether the respondents had a different attitude towards advertisements with English, compared to advertisements in their own language (RQ3).

	<i>Ads with English M (SD)</i>	<i>Ads without English M (SD)</i>	<i>Main effect for Version with English versus Version in the local language</i>
<b><i>Image innovative<sup>a</sup></i></b>			
<i>Bulgari</i>	4.00 (1.38)	4.17 (1.39)	$F(1, 698) = 2.63, p=.10$
<i>Smart</i>	5.26 (1.50)	5.46 (1.26)	$F(1, 701) = 3.69, p=.06$
<i>Absolut</i>	4.14 (1.40)	4.21 (1.37)	$F<1$
<b><i>Image price<sup>b</sup></i></b>			
<i>Bulgari</i>	5.24 (1.21)	5.07 (1.26)	$F(1, 692) = 3.39, p=.07$
<i>Smart</i>	5.12 (1.33)	5.04 (1.04)	$F<1$
<i>Absolut</i>	4.75 (1.21)	4.73 (1.15)	$F<1$
<b><i>Attitude<sup>c</sup></i></b>			
<i>Bulgari</i>	4.52 (1.06)	4.54 (1.01)	$F<1$
<i>Smart</i>	4.25 (1.15)	4.23 (1.17)	$F<1$
<i>Absolut</i>	4.74 (1.05)	4.60 (1.10)	$F(1, 702) = 3.23, p=.07$

Table 1 Use of English and image of the product and attitude towards the text of the ad

*a* 1 = old fashioned, 7 = modern

*b* 1 = cheap, 7 = expensive

*c* 1 = negative, 7 = positive

Table 1 shows that whether or not English is used in an ad does not have any significant impact on the image of the product advertised (RQ1), the price of the product (RQ2) and the attitude towards the text of the ad (RQ3). No significant differences between the countries were found (RQ6a,b and c).

All respondents claimed to understand the English fragment of the ad and said that they were able to describe the meaning of the English fragment in their own words (RQ4) ( $M = 5.94$ ,  $SD = 0.88$ , where 1 indicated “do not understand at all” and 7 “understand completely”). No significant differences between the countries were found (RQ6d).

Table 2 shows the actual comprehensibility (RQ5) of the six fragments.  $\chi^2$ -tests showed that there were significant differences between the countries ( $\chi^2(5)=1.331$ ,  $p < .01$ ) (RQ6e). There was a dichotomy between on the one hand France, the Netherlands, French-speaking Belgium and Spain and on the other hand Dutch-speaking Belgium and Germany. The countries in the former group comprehended the six fragments better than the countries in the latter group.

	<i>Indication of the meaning given correctly</i>	<i>Indication of the meaning given incorrectly</i>
<i>Dutch-speaking Belgium</i>	189 (52%)	171 (48%)
<i>French-speaking Belgium</i>	238 (66%)	122 (34%)
<i>France</i>	232 (69%)	104 (31%)
<i>Germany</i>	177 (49%)	183 (51%)
<i>The Netherlands</i>	238 (66%)	122 (34%)
<i>Spain</i>	233 (65%)	127 (35%)
<i>Total</i>	1307 (61%)	829 (39%)

Table 2 The actual comprehensibility of the six fragments

## Conclusion and Discussion

As we discussed in the introduction, previous studies have indicated that there is a generally held belief that the use of English is good for the image of a product. In order to investigate whether this really is the case, we formulated RQs 1 and 2. The findings of our research (cf. Table 1) show that there was no support for these contentions, at least for our respondent group of highly educated young women. Products advertised using English, were not viewed as more modern than products that were advertised using only the local language (RQ1). For all three ads, and across all six of the investigated areas, our highly educated female respondents viewed products advertised using English as neither modern nor old-fashioned. This would suggest that advertising agencies are being somewhat misguided, if they are only opting for English in advertisements only because they believe that consumers will view the product as being more modern. Likewise, a product that is advertised using English was also not considered to be more expensive than a product that is advertised using the local language (RQ2).

A further reason for using English that we identified in our literature survey was that respondents have a more positive attitude towards ads that include English than ads in the local language (RQ3). Our findings also did not provide any support for this research question (cf. Table 1).

The results for image and attitude indicate for all the countries in our study that there are no advantages to using English – at least for the population we studied. The findings for the investigation into comprehension point in a similar direction. The ability to comprehend the fragments, as reported by the respondents themselves, was undoubtedly high for all three ads and all six regional areas, ( $M = 5.94$ ,  $SD = .88$ ), where 1 stands “do not understand at all” and 7 “understand completely” (RQ4), but the respondents actual comprehension was much lower: in 39% of all cases, the respondents were not able to give a convincing global meaning for the English fragments (RQ5, Table 2). This discrepancy between respondents’ estimated ability to translate the English used and the actual number of correct indications of the meaning has also been found in other studies (Gerritsen 1995; Gerritsen et al. 2000; Gerritsen 2004). It provides a clear indication that brand managers must not rely on respondents’ estimated ability in the form of self reports, but that they should test whether the target group comprehends a text.

Our findings show furthermore that respondents were sometimes very far from the mark in their comprehension of the ads. Below some of the most notable examples are presented. In cases such as these it is clear that the message carried by the English text fragment has not at all been understood.

(1) Contemporary Italian Jeweller's	Seductive Italian jewels
	Co-operative Italian jewelers
	that the perfume can be seen as a timeless Italian
The new fragrance for women	The new feeling for women
	The new refresher for women
Open your mind	Gives more insight

The question is to what extent the use of English results in the lack of comprehension of an ad, as ads completely in the local language are, of course, not always fully comprehended either. On the one hand, this lack of understanding might seem unimportant, since an ad aims at more than just conveying a message, for instance, it is designed to raise consumers' awareness of the product or the brand name. Furthermore, consumers will generally be unaware that they have not understood a text, particularly given their high levels of self reported comprehension. The chance is therefore small that the use of English will lead to irritation, and a negative attitude towards the ad or the product, because consumers do not feel that they misunderstand the message (McQuarrie and Mick 2003). On the other hand, the consumers' correct understanding of the message is usually a prerequisite for the advertisement to achieve the desired communicative effect (Pieters and Van Raaij 1992).

On the basis of our experiment we can conclude that the inclusion of English in advertisements does not have a positive influence on the image of the product, does not result in a positive attitude towards the ad, and increases the chances of the consumer misunderstanding the message. The reasons outlined in previous literature and by advertising agencies do not appear to have substance.

It remains of interest to investigate whether our findings can be extrapolated to other social groups, since we can assume that our respondents' English language proficiency is relatively high. It is to be expected that people with lower levels of English proficiency will be less able to give a convincing meaning of the advertising fragments. This could then affect such respondents' image of a product and their attitude to the text.

We had expected that there would be differences between the countries on the image of the product that the inclusion of English creates (RQ6a, b), the attitude towards the use of English in the text (RQ6c) and the comprehensibility of the English text in the ad (RQ6d, e). We found only a difference

in actual comprehension of the fragments. The comprehension was significantly higher in France, the Netherlands, French-speaking Belgium and Spain than in Dutch-speaking Belgium and Germany. Unfortunately, we cannot give an explanation for this partition. It is in any case not in line with the differences between European countries in knowledge and use of English that are found in other studies.

### **Implications for Cross-cultural Brand Management**

Our investigation showed no difference between the countries of our study in the effect of using English on image and price of a product advertised, in the attitudes held towards the ad and in the comprehension of the English text of the as. For brand managers this would suggest that they can employ one strategy across all the countries in our investigation. Which strategy that should be, depends on how important one considers it to be for the consumer to understand the text. On the one hand, since the use of English has no effect on either the image of the product being advertised or on consumer attitudes towards the text, then there seems to be no reason to create an ad purposefully including English. On the other hand, since the use of English appears to have a negative effect on the consumers ability to understand the text - and if one wants to ensure that a text is well understood - then it is likely to be more effective if one creates an ad in the local language. For target consumer groups who are less educated than the highly educated young women that participated in our study, it seems even more likely that the use of the local language rather than English will increase the effectiveness of the ad. Finally, an important lesson that brand managers can learn from the results of our study is that they should test whether the English text used in an international campaign is understood indeed among representatives of the target group.

### **Biography**

**Marinel Gerritsen** holds the Christine Mohrmann chair at the Department of Business Communication Studies at the Radboud University Nijmegen. Prior to this she worked for the government and for several multinational organizations in Europe and she also held positions at a number of Dutch universities and the Royal Netherlands Academy of Arts and Sciences. Her business communication research is primarily focussed on the differences between cultures in communication and the impact that this has on intercultural communication, she has also published widely on the sociolinguistic in-bedding of language variation and change. the use of English as a lingua franca in business contexts, and the interface between English as an international language and the local languages in use.

**Catherine Nickerson** is an Associate Professor of Business Communication in the College of Business Sciences at Zayed University in the United Arab Emirates. She has held senior positions in India and in the Netherlands, and she has also lived and worked in the United States and the United Kingdom. She holds degrees from the Universities of Durham (BA) and Birmingham (MA) in the United Kingdom, and a Ph.D. from the Radboud University Nijmegen in the Netherlands. In 2009 she received the Association for Business Communication's Outstanding Researcher Award. Dr Nickerson's work has been published widely and she has given numerous international conference



papers and guest lectures at institutions around the world. Her most recent book - Business Discourse – was published by Palgrave-Macmillan in 2007 and her current research interests include the use of English as an international language in business contexts, and the communication of Corporate Social Responsibility.

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## NAVIGATING RETAIL BRANDS FOR STAYING ALIVE

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### Abstract

A Retail Brand is an asset of value to the stakeholders. Nurturing it enhances quality and stability of earnings. Franchising it across emerging countries provides an opportunity for growth. The challenge however is to ensure that the brand stays 'connected' with the local markets and 'relevant' during changing times. Current research is highly inadequate in guiding the retail brands to stay vibrant when traveling to emerging markets.

This research looks at how a successful fashion brand in UK is struggling to grow its retail business through the franchise way in the Middle East. While the opportunity is vast, the retail brand has been struggling for it has not stayed 'relevant'. The paper presents a framework for monitoring its performance so the retail brand can 'stay alive'.

Qualitative research was done to understand the profile of the walk-in customers, their shopping behavior, spending motives, and lifestyles. Quantitative research was done to ascertain how the retail brand was perceived in comparison to the other brands in the choice set. Further, the study investigated if the shoppers' profile and preferences varied across different outlets located in different malls.

By carrying out the analyses distinct segments were deciphered. It has been noticed that the customer profiles for the retail brand studied varied across different retail locations. Variations in their shopping preferences implied that different merchandising and in- store promotion activities are required at different outlets to connect with different segments.

The research addresses the gaps in existing literature. The study emphatically confirms that a retail franchised cannot take its existence for granted. The study also presents a framework - a dashboard of retail metrics, for measuring, monitoring, evaluating and rejuvenating the performance of retail brands.

### Introduction

Over the years, many retail brands have met untimely death. Some retail brands fail because when they travel across borders, by way of 'franchising', don't connect well with the local needs. Subway failed in its initial foray into China, since culturally, sandwiches were not an acceptable form of food

for the Chinese. Even if successful, a retail brand's staying power is being continuously tested by turbulence in the business environment. Luxury brands such as Prada, Zara and Polo Ralph Lauren are faced with the challenge of maintaining an exclusive "premium" position while being "affordable" in an economic downturn, and also while harnessing opportunities in emerging markets (O' Donnell, 2009). Retail brands that stay alive are those that constantly and tactfully connect with shoppers' needs and expectations.

There is a dearth of academic literature or case studies providing guidance on how declining retail brands can be turned around.

### **The Context**

This paper illustrates how a retail franchise can overcome the challenges to grow profitably in a turbulent business environment. The study pertains to a fashion apparel brand from United Kingdom franchised in the United Arab Emirates. Dubai market has been chosen for study.

The case examines the importance of retail franchising, and provides an approach to assessing shifts in a business environment, a framework for evaluating retail performance; process of understanding how well the franchised brand "connects" with its local customers; and, a set of metrics for a dashboard for ensuring the retail brand stays on course.

### **Franchising in Dubai**

Franchising occurs when one firm, the *franchisor* sells to another, the *franchisee*, the right to distribute its branded goods or services for a specified period of time in a specific location. Franchisors usually provide a range of services such as training, site selection, marketing support, quality programs, and vendor certification. In return, franchisees pay upfront fee and a continuing sales royalty, while agreeing to follow the franchisor's standard operating procedures as specified in the written contract and operations manual (Gillis & Combs, 2009).

For a franchisee, the benefit is that they get an established brand and can enter the market faster with confidence, while for the franchisor it ensures reduction of capital, costs and rapid growth of the brand into different markets.

In a global economy, the most widely chosen way for a home- brand to establish its footprint internationally is through the mode of franchising. Dubai, a city that is hub to various international brands has exhibited some commendable business growth for many international brands like Starbucks, McDonalds, Zara, Mango, Armani, Gucci and many others. Most of them have entered Dubai market in partnership with local trading partners by franchising.

### **FashionPro: Challenges in Navigating for Profitability and Growth**

FashionPro\* is a British brand franchising through a local partner in Dubai, Brandwagon LLC\*\*. Brandwagon is a large retail conglomerate in Dubai with FashionPro being a cardinal brand in its

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\* Brand name has been disguised for confidentiality.

\*\* The company's name has been disguised for confidentiality.

portfolio. Brandwagon has been facing difficulty in ensuring the brand's profitability and growth across its stores in UAE.

FashionPro humbly began with its first launch in 1970 in London. Currently there are more than 1000 stores across UK, Republic of Ireland, Europe, the Middle East, Russia, Singapore & Poland. FashionPro is essentially an affordable fashion brand, which believes in providing trendy styles to its customers straight from the catwalks, celebrities and streets. They are not only into ladies fashion, but are fast gaining popularity in the menswear line as well. They have widespread online presence, and actively promote business through online channels.

Brandwagon launched the first FashionPro store in the region in 2006. Including the newest one opened at Mirdif City Center, it has a total of 17 stores spread across the middle- east region in UAE, Saudi Arabia, Kuwait, Bahrain, and Egypt.

### **Turbulence in Business Environment**

FashionPro stores in Dubai suffered in terms of revenue and profits during the recent turbulent business environment.

#### **Changes in Economic Environment**

According to a report by International Monetary Fund [IMF] ("World Economic Outlook", 2010) Middle East North Africa [MENA] region has experienced a major setback.

In the United Arab Emirates, growth in 2010 is projected to be subdued at 1¼ percent, with property-related sectors expected to contract further (**Figure 1**). There is substantial uncertainty about this outlook. The first risk is that a slower-than-expected recovery in advanced economies. This would adversely affect the region's export earnings, fiscal & external balances, and growth. The second risk relates to the aftermath of the Dubai World debt crisis, the full economic impact of which may not be felt for some time. In particular, a possible re-pricing of quasi sovereign debt could have a lasting effect on financial systems, corporate sectors, and, more generally, economic activity in the area.

**Selected Middle East and North African Economies: Real GDP, Consumer Prices, and Current Account Balance**

**Balance**  
(Annual percent change unless noted otherwise)

	Real GDP				Consumer Prices <sup>1</sup>				Current Account Balance <sup>2</sup>			
	2008	2009	Projections		2008	2009	Projections		2008	2009	Projections	
			2010	2011			2010	2011			2010	2011
<b>Middle East and North Africa</b>	<b>5.1</b>	<b>2.4</b>	<b>4.5</b>	<b>4.8</b>	<b>13.5</b>	<b>6.6</b>	<b>6.5</b>	<b>6.4</b>	<b>15.5</b>	<b>1.8</b>	<b>5.2</b>	<b>7.0</b>
<b>Oil Exporters<sup>3</sup></b>	<b>4.6</b>	<b>1.6</b>	<b>4.5</b>	<b>4.6</b>	<b>14.6</b>	<b>5.7</b>	<b>6.0</b>	<b>6.3</b>	<b>19.6</b>	<b>3.4</b>	<b>7.8</b>	<b>10.0</b>
Islamic Republic of Iran	2.3	1.8	3.0	3.2	25.4	10.3	8.5	10.0	7.2	2.4	2.3	1.7
Saudi Arabia	4.3	0.1	3.7	4.0	9.9	5.1	5.2	5.0	27.9	5.5	9.1	10.8
Algeria	2.4	2.0	4.6	4.1	4.9	5.7	5.5	5.2	20.2	0.3	2.5	3.4
<b>United Arab Emirates</b>	<b>5.1</b>	<b>-0.7</b>	<b>1.3</b>	<b>3.1</b>	<b>11.5</b>	<b>1.0</b>	<b>2.2</b>	<b>3.0</b>	<b>8.5</b>	<b>-3.1</b>	<b>7.8</b>	<b>7.7</b>
Kuwait	6.4	-2.7	3.1	4.8	10.5	4.7	4.5	4.0	40.8	25.8	31.6	32.6
Iraq	9.5	4.2	7.3	7.9	2.7	-2.8	5.1	5.0	15.1	-19.4	-21.0	-5.5
Qatar	15.8	9.0	18.5	14.3	15.0	-4.9	1.0	3.0	33.0	16.4	25.1	39.4
Sudan	6.8	4.5	5.5	6.0	14.3	11.3	10.0	9.0	-9.0	-12.9	-8.4	-8.5
<b>Oil Importers<sup>4</sup></b>	<b>6.5</b>	<b>4.7</b>	<b>4.6</b>	<b>5.2</b>	<b>10.1</b>	<b>9.1</b>	<b>8.0</b>	<b>6.7</b>	<b>-3.4</b>	<b>-4.2</b>	<b>-4.4</b>	<b>-4.1</b>
Egypt	7.2	4.7	5.0	5.5	11.7	16.2	12.0	9.5	0.5	-2.4	-2.6	-2.1
Morocco	5.6	5.2	3.2	4.5	3.9	1.0	2.0	2.6	-5.2	-5.0	-5.0	-4.4
Syrian Arab Republic	5.2	4.0	5.0	5.5	15.2	2.5	5.0	5.0	-3.6	-4.5	-4.0	-3.5
Tunisia	4.6	3.0	4.0	5.0	5.0	3.7	4.2	3.5	-4.2	-3.4	-2.7	-3.0
Lebanon	9.0	9.0	6.0	4.5	10.8	1.2	5.0	3.4	-11.5	-11.1	-12.8	-12.8
Jordan	7.8	2.8	4.1	4.5	14.9	-0.7	5.3	4.6	-10.3	-5.6	-8.9	-9.7
<i>Memorandum</i>												
Israel	4.0	0.7	3.2	3.5	4.6	3.3	2.3	2.6	0.7	3.7	3.9	3.7
Maghreb <sup>5</sup>	3.7	2.9	4.2	4.7	5.5	3.7	4.2	4.0	16.3	1.3	4.5	5.3
Mashreq <sup>6</sup>	7.0	4.8	5.0	5.4	12.3	11.9	10.0	8.1	-2.5	-4.0	-4.4	-4.0

<sup>1</sup>Movements in consumer prices are shown as annual averages. December–December changes can be found in Tables A6 and A7 in the Statistical Appendix.

<sup>2</sup>Percent of GDP.

<sup>3</sup>Includes Bahrain, Libya, Oman, and Republic of Yemen.

<sup>4</sup>Includes Djibouti and Mauritania.

<sup>5</sup>The Maghreb comprises Algeria, Libya, Mauritania, Morocco, and Tunisia.

<sup>6</sup>The Mashreq comprises Egypt, Jordan, Lebanon, and Syrian Arab Republic.

Figure 1: Source: World Economic Outlook report, 2010, IMF

## Shift in Demographics

Owing to the changing economic environment, businesses of not only large conglomerates but also of numerous Small & Medium Enterprises [SME] have been either wiped out, or suffered a major setback. Employees of such organizations have been affected with policies to reduce employee costs by retrenchment, salary reduction, and redeployment to other business units. Interestingly, in spite of these odds, the population of Dubai has only increased. As per statistics from Dubai Statistics Center [DSC], Dubai continues to add more than 10,000 residents per month, with population crossing the 1.8 million-mark in the first quarter of 2010. Population in the emirate has grown to more than 1,801,000 residents, up from 1,676,000 at the end of Q1 2009, indicating a growth of 7.5 per cent or 125,000 residents in the past twelve months.

This latest data is in stark contrast with earlier estimates by international agencies that Dubai's population would shrink as the emirate's real estate and construction sectors suffered a slowdown. Some analysts now maintain that the increasing affordability and availability of residential accommodation, and commercial space in the emirate will result in Dubai's population increase. Increase in population is a good indicator for retail brands. The challenge however, remains in

understanding the demographic shifts, changing needs of customers, and targeting the right segment with the right value proposition.

Dubai has predominantly a young population. As per the figures indicated by Dubai Statistics Center (“Populations by age”, 2010) in Figure 2, the ratio of male to female is 3:1.

السكان حسب الجنس وفئات العمر في سنوات التعداد - إمارة دبي Population By Sex And Age Groups at the Census - Emirate Of Dubai ( 1993 , 2000 , 2005 , 2009 )												
جدول ( 01 - 02 ) Table												
2009*			2005			2000			1993			فئات العمر Age Groups
المجموع Total	إناث Female	ذكور Male	المجموع Total	إناث Female	ذكور Male	المجموع Total	إناث Female	ذكور Male	المجموع Total	إناث Female	ذكور Male	
71,023	32,159	38,864	54,693	26,623	28,070	48,354	23,242	25,112	50,619	24,058	26,561	0 - 4
73,200	32,717	40,483	56,322	27,083	29,239	53,339	25,023	28,316	58,387	27,389	30,998	5 - 9
63,616	28,166	35,450	48,920	23,316	25,604	50,597	23,794	26,803	49,114	23,122	25,992	10 - 14
56,764	24,813	31,951	43,617	20,540	23,077	42,204	20,291	21,913	32,429	15,232	17,197	15 - 19
180,061	49,425	130,636	135,268	40,914	94,354	70,926	23,683	47,243	47,212	17,729	29,483	20 - 24
345,937	61,851	284,086	256,384	51,201	205,183	136,622	33,916	102,706	80,401	25,249	55,152	25 - 29
346,833	58,138	288,695	256,638	48,128	208,510	139,106	32,226	106,880	85,971	24,562	61,409	30 - 34
265,027	43,292	221,735	195,987	35,837	160,150	126,490	27,731	98,759	79,945	19,936	60,009	35 - 39
165,301	29,369	135,932	122,490	24,312	98,178	86,722	17,096	69,626	58,367	11,849	46,518	40 - 44
98,084	17,891	80,193	72,730	14,810	57,920	56,965	11,211	45,754	33,642	6,848	26,794	45 - 49
58,687	11,417	47,270	43,592	9,451	34,141	29,027	5,944	23,083	17,397	3,501	13,896	50 - 54
26,334	5,466	20,868	19,596	4,524	15,072	11,238	2,711	8,527	8,182	1,900	6,282	55 - 59
10,166	2,826	7,340	7,640	2,339	5,301	5,173	1,456	3,717	4,210	1,298	2,912	60 - 64
4,162	1,479	2,683	3,162	1,224	1,938	2,785	1,001	1,784	2,253	873	1,380	65 - 69
2,742	1,102	1,640	2,096	912	1,184	1,477	648	829	1,529	721	808	70 - 74
3,041	1,127	1,914	2,318	934	1,384	1,362	615	747	1,268	531	737	75 +
1,770,978	401,238	1,369,740	1,321,453	332,148	989,305	862,387	250,588	611,799	610,926	204,798	406,128	Total المجموع
* Estimation												

Figure 2: Source: Population By Sex and Age Groups, 2010, DSC

<p>حركة السكان النشطين خلال النهار، دبي نهاية العام</p> <p>Activity Population Movement During the Daytime - Emirate of Dubai, End of the Year</p>		
جدول ( 01 - 03 ) Table		
Indicator	2009	المؤشر
Number of Permenant Residents Population*	1,770,978	عدد السكان المقيمين إقامة دائمة*
Workers in the Emirate from those who Residents Outside the Emirate and Temporarily Residents**	867,800	العمالون بالإمارة والمقيمين خارجها والمقيمين المؤقتين**
Total	2,638,778	جملة
<p>* تقديري يأسيس معدل النمو السنوي للسكان (7.32%) بين تعدادي (2000 - 2005).</p> <p>** تشمل نسبة من العاملين بالحكومة الاتحادية والحكومة المحلية والقطاع الخاص والمقيمين خارج الإمارة مضافاً إليها متوسط عدد السياح والزوار.</p>		

Figure 3: Source: Activity Population Movement During Daytime, 2010, DSC

During the average working day, the active population swells by 50 per cent when tourists, sailors and workers of government and private sector, residing outside Dubai commute for work.

Active population in Dubai during the day at the end of 2009 averaged 2,638,778, as shown in the Figure 3 ("Activity Population Movement", 2010).

Since the inception of FashionPro in 2006, the population of Dubai has increased and the demographic profile of the residents has changed.

### Change in Buying Patterns

The current economic condition has infringed the buying patterns of the customers. As per a report of Jones Lang Lasalle [JLL] (Sambridge, 2010), spending in 2010 is expected to be driven primarily by goods sold in department stores and value chains rather than luxury brands.

The customers' wallet sizes have shrunk and likewise buying capacity and tendencies. People are looking for value, and the term "more for less" is more significant today than ever before as one of the toughest recessions has engulfed businesses across the globe (Williamson & Zeng, 2009).

Not just Luxury but "affordable luxury" brands also need to reposition the value proposition, because of shifts in the needs and spending patterns of shoppers.

As per JLL (Sambridge, 2010), the retail sales fell on average by 30% in 2009 as the global economic crisis affected retailing in Dubai. A small recovery is expected in 2010 (3-5 %). Despite slow growth projected in consumer spending, annual footfall in major malls is expected to rise in 2010, owing to tourist attractions and entertainment anchors within malls.



In order to mitigate further decline in profits in the short-run, due lower consumer spending, retailers continue to reduce their inventory, manpower and costs. This is an unfortunate vicious cycle which kills the retail brand in the long run.

### **Changes in Retail Landscape**

Dubai, one of the seven emirates in United Arab Emirates, has been called the "shopping capital of the Middle East". Dubai alone has more than 70 shopping malls, including the world's largest shopping mall, Dubai Mall. The city draws large number of shopping tourists from all over the world.

Retail has been one of the fastest growing industries in the UAE for the past few years. Favorable government policies and active participation by the private sector have facilitated one of the world's most desirable retail environments in terms of investments and revenue generation.

Dubai has seen one of the fastest growths in retail space in the world with its gross leasable area [GLA] per capita increasing from 10.5 sq ft in 2006 to 14 sq ft in 2010. It is anticipated that due to abundant growth in retail space there will be an increase in shorter leases, break clauses and rent free periods for retailers, as the market shifts in favor of the tenants.

Average estimated rental values [ERV] have declined by approximately 34 percent over the past year, with an eight percent drop in the first quarter of 2010. Retail rents continue to fall in Dubai whereas they have stabilized in other cities within gulf region.

### **The Problem**

The anxiety of Brandwagon LLC for FashionPro was that, although the walk-ins of their stores were very high, the conversion was far low. As a result, there isn't enough business being generated, increasing non- moving stocks, and mounting operating losses. If this trend was to prevail, continuance of FashionPro in Dubai and the performance portfolio of Brandwagon would be questionable. The need of the hour is to understand the initiatives for navigating the brand to keep it 'alive'. The silver lining is that the walk-ins (or traffic) into the stores has not declined.

### **Research Methodology**

A research was conducted across three FashionPro stores at three distinct malls - Mirdif City Center, Burjuman and Dubai Mall. A two- pronged approach was followed: first, a qualitative research through in-depth interviews was carried out. Next, based on the insights gathered, a questionnaire was designed to survey FashionPro walk-ins in the three malls.

#### **Qualitative Research**

Preliminary in- depth interviews were conducted with few store managers of FashionPro outlets. This was to understand the walk-ins, conversion of walk-ins into buyers, their spending patterns, amount and nature of spend, margins earned, etc.

In-depth interviews were also carried out at outlets with some walk-in customers of FashionPro.... to understand who they were, why they were buying or not buying, their spending patterns and

tendencies for the future, their lifestyles and interests. This was done by using a discussion guide, comprising of several open- ended questions for eliciting responses.

### **Quantitative Research**

The quantitative research was to ascertain the precise profile of the walk- in customers and if they varied across the three different outlets studied in three different malls. Specific questions were asked with respect to reasons for shopping, average spend per visit, frequency of shopping. Online behavior and willingness to receive promotional messages via email was also studied. The profiles of the respondents were ascertained with respect to age, nationality, occupation and lifestyles. Awareness of FashionPro was also assessed. All the respondents were asked to evaluate the importance of retail store attributes, and how the outlets in different malls were perceived on those attributes.

Responses for a statistically valid sample of one hundred and two were tabulated. A statistical research package SPSS, version 15 has been used for analyzing the gathered data.

### **Observations**

#### **Qualitative Observations**

By talking to the retail experts and store managers of FashionPro, it was very evident that Dubai's economy is going through turbulence and the outlets are experiencing a decline in revenues and profitability. Surprisingly, this is happening in spite of high walk-ins. The challenge for FashionPro is to convert the walk-ins into business that is profitable.

Insights from qualitative research helped understand the motives for shopping at FashionPro. It also appears that the profile of the walk- in customers and their lifestyles varied across the outlets.

#### **Quantitative Observations**

The qualitative research served as a basis for designing a structured questionnaire for the survey. In the sections that follow, the data gathered has been analyzed and presented.

The analysis showed that the purchases depend on consumers' having disposable income, feeling confident about their future, trusting in business and economy, embracing lifestyles and values that encourage consumption (Quelch & Jocz, 2009). The intent of the analysis was to understand the shopper's buying behavior, given the major turbulence in Dubai's business environment.

If understanding customers' need is vital in a booming economy, understanding shifting needs of customers in recessionary times is imperative. A need based segmentation using cluster analysis was done. Three distinct segments were deciphered, each having a distinct need for visiting a store. The pictorial description of the segments is as given in Figure 4.

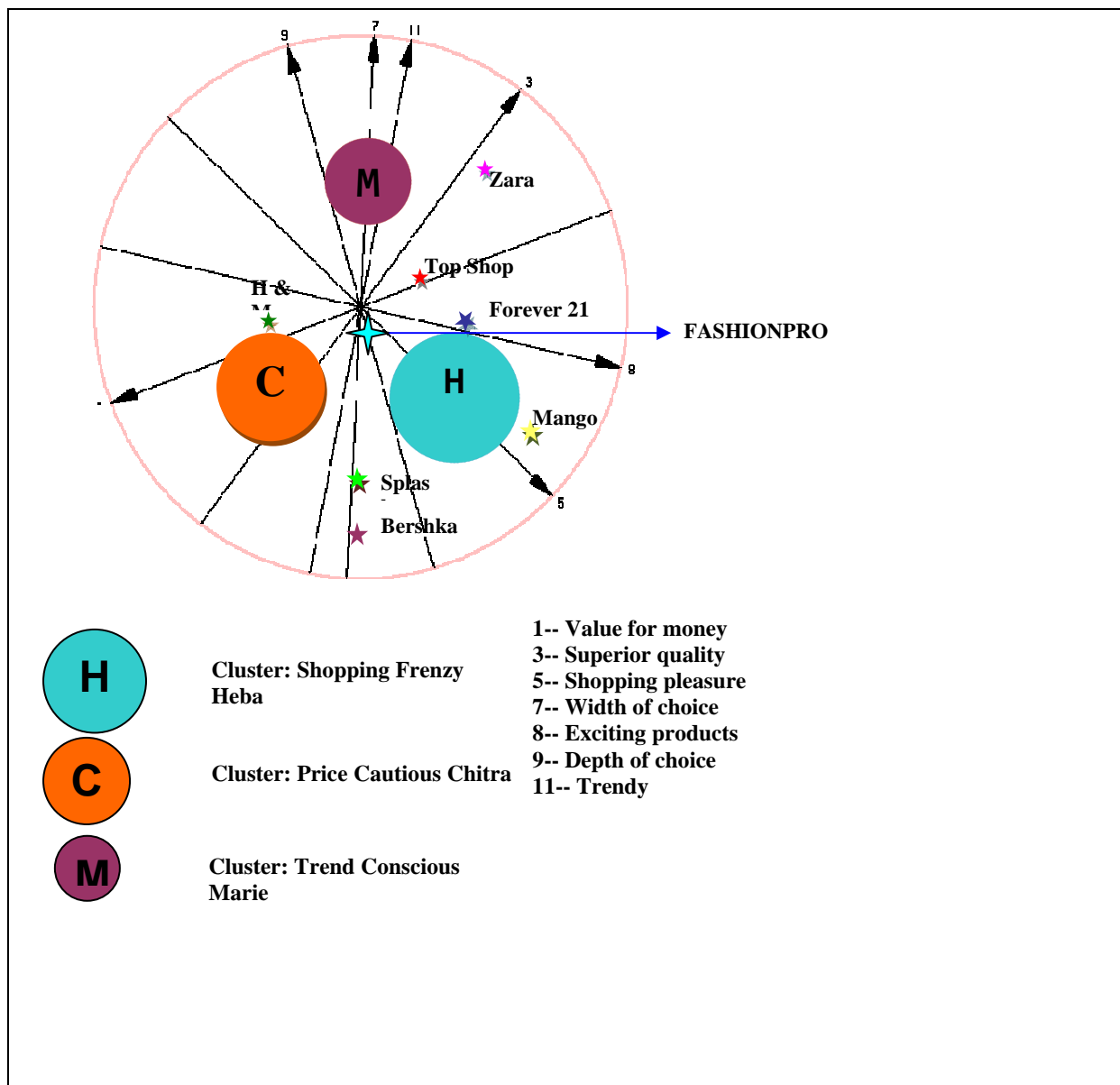


Figure 4: Perceptual Map Depicting Clusters H, C & M and competitor Brands

Retailers who build their strategies around the emerging segments can grow successfully provided they connect with their customers at an emotional rather than at a superficial level (Rust, Zeithaml & Lemon, 2004).

Three distinct clusters have evolved from the walk-in traffic data analysed. The clusters have been labeled as H, C & M. 'H' for Shopping Frenzy Heba [Heba], 'C' for Price Cautious Chitra [Chitra] and 'M' for Trend Conscious Marie [Marie]. The size of the cluster denotes the share of walk-ins (from number of respondents gathered). Each cluster depicts different attribute loadings.

Different retail brands have been positioned on the basis of respondents' perceptions in reference to the different attributes. Attributes like 'Comparing brands' prices', 'Style choice', 'Shopping as time waste', 'Internet browsing for latest styles' (Attribute numbers 2, 4, 6 & 10) have been observed to have little significance for the purpose of analysis and understanding. FashionPro is somewhat

equidistant to each of the clusters H, C, and M. Splash & Bershka appear to be scoring high on 'width of choice'; surprisingly, Zara appears to be an obvious winner in terms of 'superior quality'; while 'shopping pleasure' is the key driver for Mango. H & M for its 'value for money', Top Shop a distant second to Zara, and Forever 21 for its 'exciting products' are the closest competitors to FashionPro.

### **Profile of Customers**

The segment-wise analysis has been done to understand the distinct benefits sought by each segment, their demographics, lifestyle, shopping behavior, and information search practices (Table 1). The three segments identified were:

Shopping Frenzy Heba: A shopping enthusiast with high disposable cash and erratic buying patterns.

Price Cautious Chitra: One with a limited budget who would compare and contrast value- for- money across brands.

Trend Conscious Marie: Individual with an eye for fashion with high frequency to shop for examining the width and depth of choice.

<i>Attributes</i>	<i>Shopping Frenzy Heba</i>	<i>Price Cautious Chitra</i>	<i>Trend Conscious Marie</i>
<i>Need description</i>	<i>Heba is a customer for whom shopping is a pleasure. She loves to shop for exciting products.</i>	<i>Chitra is a customer who is most price- conscious. She looks for value for money by comparing prices and styles.</i>	<i>Marie is a customer who prefers latest trends. She makes a special effort to choose among many brands.</i>
<i>Age range</i>	<i>18-22 years</i>	<i>22-26 years</i>	<i>26- 30 years</i>
<i>Nationality</i>	<i>Predominantly Arabs</i>	<i>Predominantly Asians</i>	<i>Predominantly Europeans</i>
<i>Occupation</i>	<i>Students</i>	<i>Employed</i>	<i>Employed / Self Employed</i>
<i>Average spend/ visit</i>	<i>AED 100- 400</i>	<i>AED 200- 300</i>	<i>AED 100- 300</i>
<i>Frequency of shopping</i>	<i>scattered purchases across the month</i>	<i>once in a fortnight</i>	<i>more than once a month</i>
<i>Fashion magazines</i>	<i>Grazia, Ahlan &amp; Emirates Woman</i>	<i>Grazia &amp; Insider</i>	<i>Grazia, Hello &amp; Vogue</i>
<i>Online behavior</i>	<i>Primarily visits: gulfnews.com, and few other Arabic websites</i>	<i>Favorite website browsed is: timeoutdubai.com</i>	<i>Highly informed about latest fashions from favorite websites including: vogue.com</i>
<i>Ready to receive promotion messages through</i>	<i>Mobile text messages, facebook</i>	<i>Email &amp; newspaper</i>	<i>Email &amp; magazine</i>
<i>Social activities preferred</i>	<i>Watching movies &amp; clubbing with friends</i>	<i>Sports &amp; reading</i>	<i>Travelling &amp; sun-bathing at beach</i>
<i>Ability to recall any FashionPro advertisements</i>	<i>Predominantly no recall</i>	<i>Predominantly no recall</i>	<i>Partially able to recall</i>

Table 2: Segment-wise customer profile

### Store-wise Analysis

Diversity amongst perceptions of walk-in customers at each store, led us to examine for variation in their perceptions if any, of the three different FashionPro outlets. Towards this, a separate investigation has been done to ascertain the respondents' perception of the three outlets.

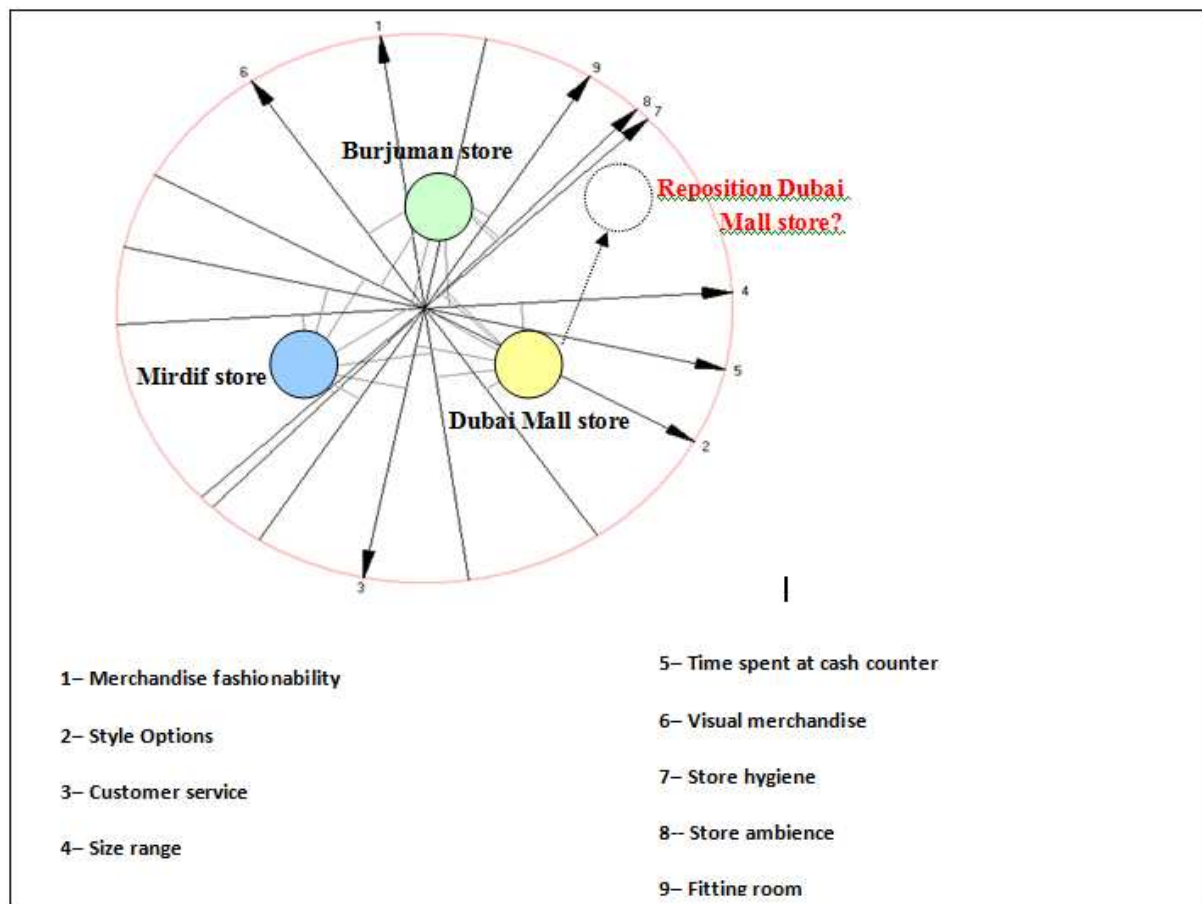


Figure 5: Perceptual Map of FashionPro stores at the three malls

The above perceptual map is based on respondents' ratings on the various operational attributes of FashionPro stores in three malls- Dubai Mall, Burjuman, and Mirdif City Center. While store at Burjuman scored very high on the attributes 'Merchandise fashionability', 'Visual merchandise', 'Store hygiene', 'Store ambience' and 'Fitting room' convenience; Dubai Mall scored high on 'Style options', 'Size range' & 'Time spent at cash counter'. Mirdif store scored high only on 'Customer service'; which seems to be lagging on other attributes in comparison to the other two stores.

To connect well with 'Marie', Dubai Mall store needs to improve on its 'merchandise fashionability'; with 'Heba', 'store hygiene' and 'store ambience'. Dubai Mall store is quite low on customer service levels as has been indicated in Figure 5.

#### Dubai Mall: Segment-wise analysis

For a retail brand to be successful, it's necessary to stay healthy at all the outlets in all the franchised countries. It is believed that one should have a comprehensive understanding of what is happening at the grass root level of each and every store. In this study an effort is made to understand in-depth the FashionPro outlet at Dubai Mall.

Dubai Mall				
Study Segments	% Share of Walk-In	Conversion %	Expected spend/ month <sup>16</sup> (AED) <sup>17</sup>	Expected Margin across product categories (AED) <sup>18</sup>
Trend Conscious Marie	15.6%	0.13	500	170.50
Shopping Frenzy Heba	65.6%	0.52	2751	1028.35
Price Cautious Chitra	18.8%	0.50	1500	552.25
<b>TOTAL</b>	<b>100.0%</b>	<b>Not Applicable</b>	<b>4751</b>	<b>1751.1</b>

Table 2a: Dubai Mall segment- wise expected spend &amp; margin

		Product Category				
		Tops	Bottoms	Shoes	Bags	Accessories
Study Segments						
Trend Conscious Marie	Expected Margin %	45.0%	15.0%	30.0%	6.0%	4.0%
	Expected Margin Value (AED)	67.50	22.50	60.00	10.50	10.00
Shopping Frenzy Heba	Expected Margin %	19.0%	14.3%	23.8%	23.8%	19.0%
	Expected Margin Value (AED)	157.20	117.90	262.00	229.25	262.00
Price Cautious Chitra	Expected Margin %	40.0%	7.0%	33.3%	3.0%	16.7%
	Expected Margin Value (AED)	180.00	31.50	200.00	15.75	125.00
<b>TOTAL (AED)</b>		<b>404.70</b>	<b>171.90</b>	<b>522.00</b>	<b>255.50</b>	<b>397.00</b>
Total margin generated across product category/ month (AED)		<b>1751.10</b>				

Table 2b: Dubai Mall segment- wise product category- wise margin

As can be observed from Table 2a, the share of walk-ins is highest among the Heba segment, so is the % conversion. Although, 'Chitra' has a low % share of walk-ins, % conversions are fairly comparable to Heba's. The lowest % conversion recorded is for 'Marie'. 'Heba' generates the largest amount of expected margin across product categories.

<sup>16</sup> Expected spend/ month = No. of walk- ins \* % conversion \* Average spend/ visit \* Frequency of visits

<sup>17</sup> 1 US Dollar = 3.673 AED (currency used in United Arab Emirates)

<sup>18</sup> Expected Margin across product categories = Expected Margin Value (Tops + Bottoms + Shoes + Bags + Accessories)

Table 2b gives category- wise margin expected to be generated by each segment.

Tables 2a and 2b provide information for Dubai Mall only. A similar exercise can be performed across all the FashionPro stores to arrive at store-wise performance so as to evolve navigating initiatives for keeping the retail brand alive.

## Challenges and Recommendations

There is no generic 'one solution-fit-all' to the challenges faced by FashionPro stores.

From our perceptual map in **Figure 4** we have observed the equidistant position of FashionPro from segments 'Heba', 'Marie' and 'Chitra'. In today's scenario, many luxury brands are trying to reposition themselves in response to the changing needs of their customers without devaluing the brand (O' Donnell, 2009). FashionPro needs to ask if it wishes to devise a strategy to primarily target 'Marie'? or 'Heba', or both? And, also devise creative tactics to allure 'Chitra'?

**Challenge one** that FashionPro faced was to understand the different segments of shoppers that visit its different stores. Since different shoppers exhibited different interests and profiles, the challenge is to understand and decide which segments to reach out to.

### First step is to allure the target segments into the FashionPro stores

Initiatives have to be adopted to improve the walk-in traffic. Heba predominantly exhibits no recall for the brand FashionPro, however she is a shopper who finds shopping highly pleasurable. 'Heba', mainly of Arab origin has the highest disposable cash at her discretion. She is highly active on social networking websites, which could be targeted to create a buzz for FashionPro amongst this young segment. Creating fan pages or a social forum for young women to discuss their fashion secrets can be a very cost- effective and high impact marketing initiative. She can be further tempted with promotions through personalized mobile text messages, making her feel special and slowly bonding her to the brand. Her erratic buying pattern is indicative that she is not a loyalist, and loves to choose from many brands. Research indicates that customers who are neither loyal to you nor to your competitors should be targeted (Favaro, Romberger & Meer, 2009). By offering the right value proposition to them, one can eventually make them loyal to a brand; in our case to FashionPro.

Chitra is a young professional with a limited budget and time to spend, which explains her value for money behavior. Mostly Asian, she is a young expatriate working in Dubai. Highly price cautious, she would compare between few brands before making a choice. Her brand recall for FashionPro is rather low and best way of alluring her is to keep her abreast about the latest promotional offers. She is the type who would look for such information in the local newspapers and hence, it would be a good idea to advertise during major shopping festivals.

'Marie' is a more mature customer, looking for trendy products. Largely of European origin, Marie exhibits partial recall for FashionPro. Reasons could be two- fold one, UK being the country of origin; two, her high information seeking tendency about latest fashion and styles. Her propensity to buy



often (more than once a month) is notable. She would love to receive updates on new merchandise additions through FashionPro newsletter via email.

**Challenge two** that FashionPro faced was to probe on the choices with respect to merchandise, in-store layout and service standards that each of the target segments exhibited.

### **Step 2 is to increase the conversion ratio for the walk-ins received at each store**

As noted in Table 2a, conversion ratio is relatively highest for Heba, yet only half the walk-ins (approximately) is buying from FashionPro. From Table 2b, it can be observed that their buying is spread across all product categories. This segment should be targeted to serve as the 'lifestyle' customer of FashionPro. A 'lifestyle' customer is one who would not only buy basic merchandise but a complete wardrobe with shoes, bags & accessories to match her style. Cross-selling and up-selling for Heba can be done by- one, conducting training to educate store personnel on service delivery; two, 'incentivize' personnel for increasing transaction- value per customer; three, by dressing up the mannequins in the same manner as you would like your customer to buy, with not just tops and bottoms, but refurbishing it with other accessories like handbags, shoes, scarves, and even ear-rings and rings for creating an image of what a prospective shopper is looking for.

Conversion for Chitra segment is approximately 50%, yet she predominantly buys from only one category of merchandise- Tops. Possibly, she faces fit issues on bottoms and shoes since sizes of FashionPro are as per European standards and not appropriate to the physique of Asian women. A value section in the store can be created subtly to provide a lucrative offer to 'Chitra' without jeopardizing the image of FashionPro.

Conversion for Marie segment is the lowest, and her buying is skewed towards Tops & Shoes. She appears to be a loyal customer of FashionPro. Hence, if she is not buying enthusiastically across product categories, then she is probably not finding the right merchandise. A 'latest entrants' section within the store can be created, where the most recent 'window<sup>∞</sup>' of merchandise is displayed. To create effective visual impressions, pictures of FashionPro models wearing the same merchandise as on display, should be made available around the section area which would act as a buzz creator. For example, Marie's interest in 'sunbathing' is an excellent cue to promote beachwear line currently offered by FashionPro, however not projected or promoted well.

Both the transaction value and margins helps steer the brand towards growth and profitability. Ensuring this at the segment level for each store will enhance the retail brand's health at the store level and thus at the region/country level.

**Challenge three** was to continually stay connected with the target segments of the brand and be able to drive them towards the brand on a continual basis. Also, the challenge was to ascertain a distinct strategy for each of the locations since profile of customers visiting different outlets is different.

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<sup>∞</sup> In apparel retail industry merchandise is available at the stores in various batches of fresh style of merchandise, which is displayed at the store; commonly addressed as 'window' by retailers

**The third step is to generate repeat purchase from the target segments**

A Customer Relationship Management [CRM] process has to be put in place to generate repeat purchases from each of the segments. A record of 'attitudes', 'interests' and 'opinions' of each customer should be formulated and updated (at store and back-office).

The observations made here thus far are in the context of Dubai Mall FashionPro store only. A similar exercise can be carried out across other stores to arrive at an appropriate strategy for each one, since each store is visited by more than one segment in varying numbers (Favaro, Romberger & Meer, 2009). This customization of in-store promotions, merchandise-mix on display, visual merchandising, and responsiveness of store personnel can result in marked improvement in FashionPro's performance.

**Challenge four** is to evaluate each store continually to monitor its performance, and navigate it towards growth and profitability, so the retail brand FashionPro becomes stronger and stays healthy.

**Step four is to develop a 'dashboard' of retail performance metrics**

Research has indicated the importance of measuring marketing performance. Unfortunately, it is not the same as measuring the output in a controlled factory environment. Measuring the effect of marketing initiatives on customer behavior and the store performance is far too complex (McGovern, Court, Quelch, Crawford, 2004). Generic measures of marketing performance such as overall customer satisfaction has little value, as it does not indicate the customer's perception of say, waiting period at the cash counter or service offered by store personnel.

To monitor the performance of a retail brand on a continual basis, metrics need to be delineated along the following lines:

**Walk-ins-** In a mall location, assuming that all malls are attracting high footfalls; a drop in walk-ins for a store is indicative that the brand has not positioned itself well, and has not been promoted to its target segment, thus having low awareness amongst prospective customers..

**Conversions-** A low conversion ratio of the existing walk-ins indicates that the value-proposition towards its target segment is low.

**Transaction value-** A low transaction value is indicative that the store is not merchandised with the right product-mix. It could also be reflective of low incentive provision for the sales staff due to which the merchandise is probably not being promoted for sale.

**Average profitability per transaction-** Cross-selling and up-selling need to be ensured to increase the basket size in a manner that the margins reaped on the sale are higher. If the transaction size is high, yet profitability is low, perhaps cross selling of high margin items (example- accessories) is not being done.

**Repeat purchase-** Enormous profitability increase can be gained by emotionally connecting with the customers, thus the need for a Customer Relationship Management program so as to reconnect with the customers on a regular basis.

**Share of Wallet-** It can be defined as percentage share of total spend for apparel in affordable fashion category at our store.

**Net Promoter Score [NPS]**-An NPS score is percentage promoters minus percentage detractors, correlates well with company's growth (Reichheld, 2006). When customers are posed with a question: "How likely are you to recommend us to a friend or colleague?"- And then scoring the results on a scale of 0- 10, with zero representing "not at all likely" and 10 representing "most likely". One group which gives a score of nine or 10 are known as "promoters". They report by far highest repurchase rates, account for more than 80% of referrals and are a source of company's positive word-of-mouth. Second group comprises of those who give a score of seven or eight. Their repurchase and referral rates are lower by 50% to promoters, termed as "passives". Finally, those who give a rating between zero and six are known as "detractors", who are least likely to repurchase or refer and account for more than 80% of negative word-of-mouth.

Analysis of the different segments being targeted by each store should be evaluated as per the metrics identified. The retailer can use the dashboard as an early warning system, as well as a diagnostic tool for benchmarking and evaluating the performance of each outlet. Allocating costs to different segments and tracking their contribution or operating margins will enable the retailer to assess the return on marketing expenditures from each segment. This will enable one to prune the portfolio of stores so the brand stays profitable and healthy.

## Way Forward

The framework in Figure 6 summarizes the different approaches a retailer can take and resulting consequences. Retailer can be classified into four different situations depending upon their responses to changes in business environment.

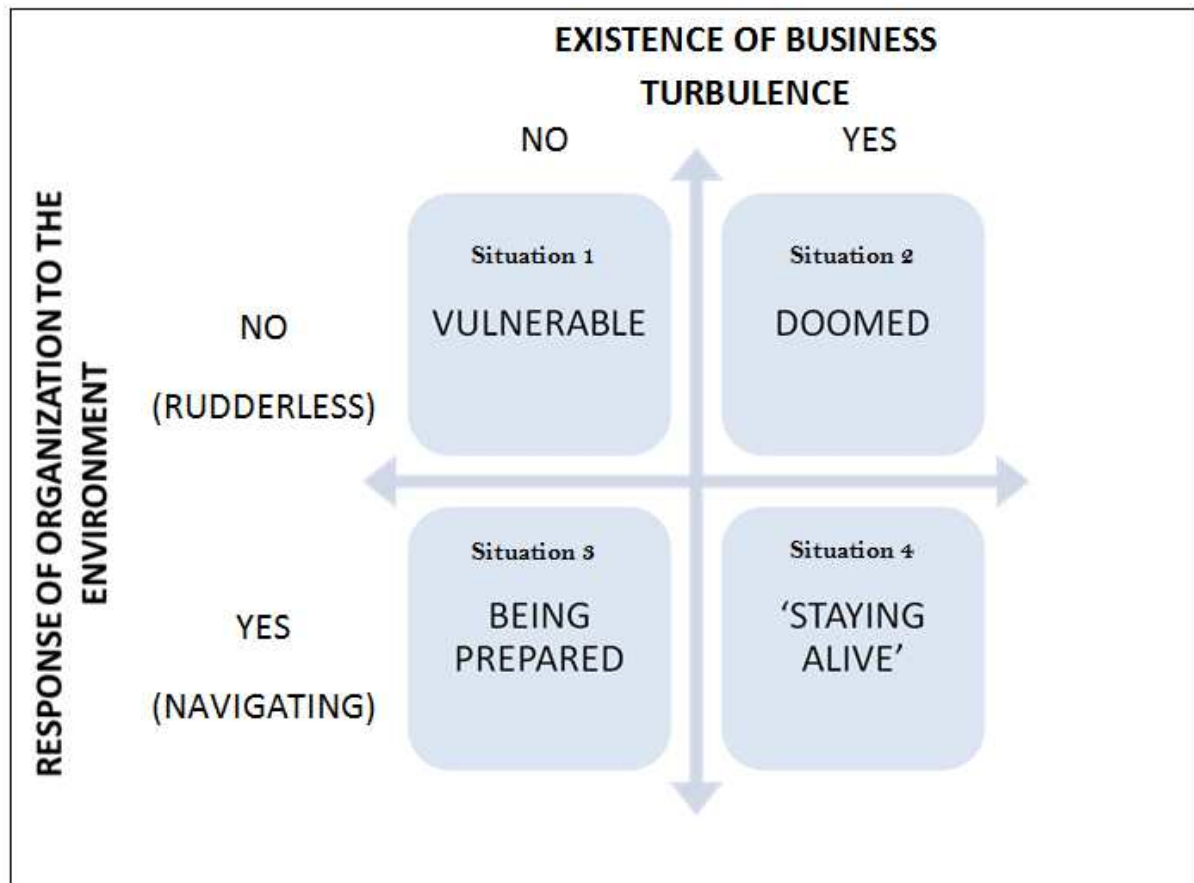


Figure 6: 2x 2 Possible situations for a Retail Brand

**Situation 1-** When a retailer has no firm action-plan in place, it is likely to be vulnerable if the satisfactory status- quo performance is challenged by negative trends in the business environment.

**Situation 2-** Should there be any major turbulence with severe consequences, the retail brand will be doomed, thus paying a severe penalty. This is the case of FashionPro. The retail brand has been successful in Europe but is fighting for survival due business turbulence in Dubai.

**Situation 3-** This is an ideal state where the retail brand has a plan in place for responding to any changes in the business environment, even when everything appears normal. Thus, the brand is truly prepared to face any odds and handle any adverse developments.

**Situation 4-** This is a happy situation where a retail brand is staying alive for it is well prepared and navigated itself through turbulence.

## Conclusion

The best practice for a global company, when franchising a retail brand in emerging countries, is to always review on an ongoing basis the changing needs, identify major segments and stay relevant with appropriate value propositions, category management and merchandising plans, communication and in- store promotion initiatives. A dashboard with pertinent metrics will help evaluate, and initiate periodic interventions necessary to navigate the retail brand to 'stay alive'.

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## CAN A FINANCIAL CRISIS SHAKE CONSUMERS' SPENDING PATTERNS? SOME GREEK EVIDENCE

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### Abstract

This paper is part of a wider qualitative project which intends to examine the effects of the current financial crisis on consumers' purchase behaviour.

Depth interviews with 30 Greek consumers with diverse demographic profiles were conducted.

The findings suggest that during financial crisis consumption adjustments such as shifting to cheaper products and private labels, decreasing quantity and reducing frequency of used products and services accordingly, 'do it yourself' alternatives, looking for discounts and special offers, while engaging into a saving money mode, are the main practices used by the participating interviewees.

The findings have important implications for both theory and practice.

**Keywords:** financial crisis, income reduction, consumers, and spending patterns.

### Introduction

For the last two years both sides of the Atlantic have faced unprecedented levels of financial crisis. Global economy has been characterized by negative GDP growth rates, decreased liquidity, and rising unemployment rates causing acute social problems (Chaudhuri, 2009). Greece has not been left untouched through this economic turmoil. Greece's economic slowdown started to accumulate late 2007 and peaked at the beginning of 2010 where the immediate search of financial aid was more than necessary (Economist, 2010).

Evidence from the Asian context report that during recession consumers tend to be price conscious, do comparative shopping, avoid or delaying expensive purchases, follow a product life cycle to cost purchase strategy, switch to lower priced or private labels, and prefer to shop from discount stores, while their attention is grabbed more from informative rather than imaginary driven advertising messages (Ang et al., 2000). To date, although much of the attention has been given to numbers of GDP, inflation, liquidity, and growth rates, still little is known regarding the impact of the present economic crisis to consumers and businesses (Kang and Sawada, 2008; Datt and Padmanabhan, 2009).

The purpose of this study is to examine the impact of the current financial crisis on the purchase behaviour of the Greek consumers and provide relevant managerial suggestions that will assist businesses to address the new economic reality. It has been noted that marketing studies have not

adequately addressed empirically the impact of economic crisis (Kang and Sawada, 2008) and what research has been done was mainly addressing the Asian and American context with notable exceptions the economic slowdown in the Eastern Europe countries (i.e., former Yugoslavia, Hungary and Poland) (Shama, 1981; Ang, 2001; Ang et al., 2000; McKenzie, 2006; Kang and Sawada, 2008). There is thus a need for studies to examine consumers' spending patterns when faced with a financial crisis in other locations as well. The present study examines the Greek consumers' spending patterns while facing an economic crisis.

The remainder of the paper is organized as follows: the next section outlines the literature related to the consumers' purchase decision making followed by a description of the methods used in the study. The findings are then presented, and the conceptual and managerial implications are discussed. Limitations and suggestions for further research are also included.

### **Consumers' Purchase Decision Behaviour**

It has been noted that slowdowns in a country's economic activity are likely to impact both consumers and businesses (Ang et al., 2000; Gummesson, 2009). Wage reduction, job insecurity, and asset deflation are likely to erode consumers' confidence and thus reduce their consumption of services and products (e.g., Ang et al., 2000). To date, most research in consumers' purchase behaviour during a recession has been concentrated on static analyses based on data mining while adopting macroeconomic approaches and in geographical areas mainly different to Europe (Ang et al., 2000; Kim and Lee, 2006). It has been indicated that consumers at the early stages of a financial crisis continue their previous spending patterns denying adjusting to the new economic situation (Kotler, 1980; Ang et al., 2000). However, there is not systematic and depth knowledge of consumers' spending patterns during bad times.

How and why consumers make their purchase decisions have been the focus of great interest for both researchers and practitioners (Burnett and Lundford, 1994; Zhang and Zhang, 2007). Several theoretical frameworks have the potential to shed further light into consumers' spending patterns during a financial crisis. The Information Processing Theory has been the common ground for all consumer behaviour models (Sirakaya and Woodside, 2005; Gabbott and Hogg, 1994). This theory divides the consumer purchase decision making into five stages: (1) problem recognition; (2) information search; (3) evaluation of alternatives; (4) purchase decisions; and (5) post-purchase evaluation. At each stage in the decision process the consumer is susceptible to influences which help him/her arrive at his/her final decision. These influences can be internal or external. In the case of a financial crisis both internal (e.g., change in consumer's basic beliefs and priorities) and external (e.g., change in consumer's income) may be affected in response to the new economic reality.

The Utility Theory (von Neumann and Morgenstern, 1947) proposes that consumers support their purchase decisions on the expected outcomes these will bring. Thus, when consumers face multiple consumption choices, these are evaluated, and the one that offers the greatest advantage is selected. The criteria often used to assist consumers to conduct the purchase decisions are: price, quality, satisfaction, brands of products, word of mouth from friends and relatives, advertisements,



disqualifications, and past purchase experiences (Zhang and Zhang, 2007). The Theory of Planned Behaviour (Ajzen, 1991) proposes that intentions to ratify a behaviour are affected by attitudes towards the particular behaviour, perceptions of control over ratifying the particular behaviour, and social standards. This model suggests that perceptions of one's ability to make the purchase and reference groups' attitudes towards the purchase would ultimately influence the buying decision. However, so far, none of these models has managed to fully explain or predict consumers' decisions. It has been noted that 'multiple decision theories when used together are likely to explain a wider range of decision behaviour across an expanded range of contexts' (Sirakaya and Woodside, 2005, p.816).

Dutt and Padmanabhan (2009) showed that the impact of a crisis on different categories and classes of economies is a consequence of active smoothing of consumption expenditures by consumers in response to a crisis. Accordingly, it is the consumer's decisions on how much to spend and the allocation of this expenditure across their consumption basket following a crisis that underpins the impact of a crisis on businesses. Thus, the observation of consumers' behaviour can result in important and interesting implications for both theory and practice (Bradlow, 2009). Given the limited empirical findings on consumers' spending patterns while facing an economic crisis, the present study adopted a qualitative approach to identify the key stimuli that affect the Greek consumers' spending behaviour and to develop recommendations for how these stimuli could be addressed.

## Method

This paper is part of a wider qualitative project which aims to examine consumers' reactions when faced with an economic crisis. As result, this paper reports the responses of 30 Greek consumers on the impact the present financial crisis has upon their consumer behaviour. Working and living in Greece was a prerequisite criterion for participating in the study since Greece is one of the most affected by the financial crisis European countries (Economist, 2010).

Projective techniques and depth interviews were used. No predetermined set of questions was adopted. The content and flow of the conversation was guided by a) the interviewees' feedback to the projective methods employed, and b) the individuals reported behaviour as response to the current economic crisis in Greece. Sentence completion and word association were the two types of projective methods used. Examples of the stimuli that the interviewees were called to respond to were words such as 'crisis', 'money', 'shopping', and 'expectations' and incomplete sentences such as 'Nowadays, I feel like ...', 'Going for shopping is ...'. In an attempt to overcome any mental defensive tactics on behalf of the interviewees (Chisnall, 1997), some neutral words and incomplete sentences were also used (such as 'My best time is...'). There was no restriction over the number nor the types of products and services that might have been linked with the financial crisis. All interviews were held in Thessaloniki, Greece.

Saturation determined the sample size (Patton, 2002). Data collection came to an end after 30 interviews since new themes and patterns appeared to emerge from the data. The sample was

comprised of an almost equal number of men and women and representatives from different age pools (see Table I).

<i>Category</i>	<i>No. of interviewees</i>	
<i>Gender</i>		
	<i>Males</i>	16
	<i>Females</i>	14
<i>Age</i>		
	<30	5
	31-40	10
	41-50	4
	51-60	7
	60<	4
<i>Education</i>		
	<i>Elementary</i>	3
	<i>High School</i>	13
	<i>University</i>	14

Table I: Sample Characteristics

All interviews were recorded, transcribed and inserted into NVivo (a qualitative data analysis software programme). Theoretical nodes based on extant theoretical and empirical findings were introduced prior to coding, and inductive nodes were inserted throughout the coding process to include emerging concepts. Reiteration between the nodes and the full transcripts assisted the emergence of themes relating to the identification of the interviewees' consumption behaviour while experiencing an economic crisis.

## Findings

During the course of the discussions, the majority of the interviewees' reported that their consumption behavior was particularly affected as result of the current financial crisis. This was evident in all age groups with more emphasis on those who had family obligations, were retired and faced income reductions (lost job or have seen their salaries being reduced). Most of these interviewees appeared particularly reserved and skeptical regarding their spending behaviour.

The primary stimuli that were found to underlie the majority of the interviewees' spending patterns were to: (1) shift to private labels/no frill products; (2) decrease quantity and reduce frequency; (3) 'do it yourself'; (4) look for discounts and special offers; and (4) accumulate savings. Each of these themes is discussed below.

### Private labels/No frills products

The majority of the interviewees' reported that their loyalty has ended for a number of products and services. Absence of loyalty was particularly evident in the cosmetics, clothes, shoes, detergents,

supermarkets, and restaurants/bars. For the majority of the interviewees, it was the price rather than the brand which dictated their consumption decisions.

“There were specific brands of products, especially cosmetics and detergents, which I repeatedly used to buy but now I have turned to cheaper, not well advertised brands. The quality of no thrill products is the same with the branded ones but their price is much lower. I don’t know why I had not turned to these products earlier. Probably I had fallen into the trap of advertisement” (Female, 31).

“I have stopped buying well branded products. All categories of products. Food, clothing, household items, and detergents, you name it. No-name brands most of the times have the same characteristics. The price is the only difference in most cases. We are used to be victims of advertising but when you come in periods such as this, you say “I am not willing to pay for your advertising expenses (reference made to the brands). Why should I buy the well-known expensive and not the no-name but cheaper brand. Let’s be honest, they have more or less the same characteristics” (Male, 61).

Private labels to well known brands appeared to be the big winners especially in the cosmetics, detergents, clothes and shoes categories. This preference was mainly based on these products competitive price. However, some interviewees appeared reluctant to consume food coming from private labels mainly due to health safety concerns.

“Everything I buy is a private label. However, I make a few exceptions for meat, and dairy products. I am not sure over their quality and I don’t want to put my health at risk” (Female, 48).

“There is an impression, which of course may be false, that private label products are of lower quality. People, including me, think that supermarket’s know how to distribute and display products but not how to produce them. However, I purchase private labels for all range of products apart from food. I don’t want to jeopardize my family’s health by shifting to these products” (Female, 40).

### **Decrease quantity and reduce frequency**

Another way of facing the economic crisis by many of the interviewees was by reducing the quantity of the products they were purchasing or reducing the frequency of using a number of services. Among the services that were particularly affected belong: holiday makers, taxis, restaurants, beauty salons, exercise clinics, hairdressers, telecommunications, and retailers.

"I no longer purchase the same quantities of goods as I used to do before the crisis. When the prices are going up, my needs have to go down in order to spend the same amount of money as before and this refers to everything from clothes to food to holidays" (Male, 61).

"Dining out once a week was our family's practice but now this is beyond our means. We eat out once a month" (Male, 50).

While an effort to reduce the shopping expenses was evident to all interviewees, differences were observed between men and women. Women's reductions were mainly referring to cosmetics, clothes and visits to the beauty salons while men seemed to concentrate their references on reductions to expenses related to family vacations, drinking and dining out as a family unit. This could be attributed to the male breadwinner stereotype.

"I have stopped going to the gym, buying new clothes, shoes and cosmetics and I rarely go now to the hairdresser" (Female, 37).

"I only buy things that are absolutely necessary. Cosmetics and clothes are out of my shopping list. The same goes for things that I used to enjoy having in my shopping basket such as chips, snacks and various sweets" (Female, 35).

A considerable effort was made to reduce the purchase of products that are not considered as first priority. This limitation included even products such as snacks and chips, and chocolates.

### **'Do it yourself'**

Many interviewees reported that in an attempt to reduce their expenses stopped outsourcing a number of services. Among the reported 'do it yourself' activities were: cooking your own meals instead of buying them ready, having dinners at home, and organizing gatherings at their own places rather than visiting restaurants, and bars.

"I have two kids, a rent to pay, and a car. I have seen my salary going down, but my expenses haven't been reduced to the least. I don't go to the movies; I download old movies from the internet. Cinemas have to be reasonable in what they charge. I don't eat out but prefer to invite my friends at home. Crisis has affected everyone and so we try to be happy with what we have in these home-based gatherings. One brings the drinks, the other the meat, one the salad, and some others do the tidying up. So, you see? There is no need to go out to fancy, expensive restaurants to have fun. We still enjoy ourselves but in a different way. I don't know why we didn't do this earlier on?" (Male, 38).

Some interviewees are more adjustable to the new financial situation than others by inventing new ways to entertain themselves such as gathering at friends' places. However, this was not the case with the older interviewees who were particularly disappointed with the new financial situation. As the following interviewee comments, retirement up until recently represented for him a period that he could enjoy his pastime.

"I hate this economic crisis. I was supposed to enjoy my retirement years and not sacrifice any of the things that make me happy. Holidays, going to restaurants with friends etc. but seeing my children having difficulties in paying back their bank loan makes me sad, and cancels my dreams for happy retired years" (Male, 65).

### **Discounts and special offers**

Some interviewees appeared to direct their purchases to discounts and special offers in order to deal with their income reduction. Choice of supermarkets, retailers (such as those selling garments, shoes and cosmetics), and restaurants was mainly dictated by the prices offered.

"There are huge differences in prices and one can take advantage of them only by searching" (Male, 50).

"I try to save money by taking advantage of special offers and discounts. For example, I have made a search among the supermarkets of my town and I moved to the one that offers the best prices" (Female, 24).

"I look for good price bargains. Especially to things like clothes, shoes, cosmetics. I don't patronize expensive stores like I used to in the past. I cannot afford this anymore" (Female, 38).

The majority of the interviewees seemed to do a good market search before they proceed into any purchase. For most of the interviewees, the main purchase criterion was the price of the product/service charged.

"I buy clothes and shoes only during sales" (Male, 40).

### **Accumulate savings**

Some interviewees linked purchase reductions or avoidance with increasing savings. Most of those related this behavior to: (1) fear of what the future may hold for them and thus save more for the potentially difficult times that may come; (2) to psychologically reasons and (3) following others spending habits who happen to be affected by the economic crisis in an attempt to keep them as social contacts.

“In times such as this, frugality is a virtue. I am not a spendthrift anymore. I save money because I am scared of what may happen next. If you wash your car, prepare your sandwich for work, and use discount coupons, you could actually save a lot of money” (Male, 58).

“I haven’t lost any money, not yet but I am psychologically depressed. It is the media, friends and family that talk on and on about the economic crisis. That affects me and I don’t feel like buying anything at the moment. Even my kids have been affected by this crisis. On Christmas they asked me whether Santa will be coming this year” (Female, 35).

Some interviewees reported that extensive media coverage of the economic crisis negatively affects their consumption behaviour and forces them into conservatism, skepticism, and depression.

“I am not affected yet, but I am scared. Media, friends, family, all talk about the crisis. This creates a very depressing atmosphere. I am not in the mood to buy clothes, shoes etc. I stick to what I have. I feel very depressed” (Female, 55).

Others were forced into money saving purchase patterns because their friends and family members could not follow them in holiday breaks, and wining, dining out.

“It is not only the impact that the crisis has on me but on my friends and family members as well. I don’t go out as often as in the past. If your friends have financial problems and they cannot follow your spending patterns then you have to follow theirs. You are staying in as well” (Male, 27).

It appears that social contacts could have an impact on some of the interviewees’ consumption expenditures and patterns.

### **Discussion**

Similar to other empirical findings in different geographical locations the great majority of the interviewees changed their spending patterns as result of the current financial crisis (Shama, 1978; Ang et al., 2000). Reductions in the spending patterns of the interviewees were mainly brought due to job lost/insecurity, reductions in salaries, and fear for further economic slowdown. Utility and

Information Processing Theory were highly applied in the purchase decisions of the interviewees. Price and comparative shopping appeared to be the key stimuli that affected the interviewees' spending patterns. Only a very small number of the interviewees appeared to be unaffected by the current financial crisis. Those belonged to the younger age pools of the sample and were free from family obligations (i.e., mortgage to pay etc). However, even within these cases some appeared to be psychologically depressed and willing to adjust their spending patterns in similar fashion to those who had been affected. This reaction was mainly twofold: (1) As per the Theory of Planned behaviour social contacts had an impact on these interviewees' leisure-recreational activities in attempt to synchronize their spending patterns to those of their affected friends and family members. This finding could be culture specific and thus further research in other contexts is necessary. (2) The interviewees appeared to be psychologically depressed for what the future may bring. Job insecurity was especially heightened in all of the interviewees. This could be attributed to the high uncertainty avoidance levels of Greek society (Hofstede, 1980). This insecurity could also explain some interviewees' need to accumulate savings and put their consumption into stagnation.

As has been found in previous research (cf., Shama, 1981), interviewees looked for private label/no frills products, did comparative shopping and searched for information over prices offered and searched for discount and special offers, reduced the quantity and frequency of products and services used, and supported the 'do it yourself' activities. Comparing and contrasting these finding with those of other countries, we could speculate that the market sophistication could play a significant role in the consumers' options regarding their spending adjustments. Thus, the increasing preference for private labels and no frill products in Greece, in contrast to Asia (Singapore) (Ang, 2001) could be attributed to two reasons: (1) Greek consumers may have become more sophisticated than prior years and feel comfortable to discern the 'value' of a product or service and thus are more confident in purchasing no thrills products; (2) the large range of available retailers provides consumers the option to choose among many similar and/or substitute products (Ang, 2001).

The services and products that appeared to be highly affected by the changes in the spending patterns of the interviewees were: leisure and recreational activities (such as holiday makers, beauty salons, cinema and patronizing restaurants and bars), food, cloth and shoe retailers while cosmetics ranked in the lower end of the consumers' spending patterns. However, the big winners appeared to be the private labels/no thrills products and the discount stores that manage to respond to the consumers' needs for lower prices. Nevertheless, contrary to what was expected, there was very limited evidence over the consumers' willingness to reduce or stop the consumption of beverages and smoking. This could be linked to these products potentially relieving effects they may have on individuals.

Businesses that are willing to address consumers' concerns during an economic crisis are more likely to succeed compared to those that do not effectively respond to consumers' unmet needs. Thus, businesses may need to trim their expenses in an attempt to respond to consumers' demand for lower prices. This could be done by reducing advertising expenditures or reorienting the current

advertising messages from imaginary to information rich so as to increase their sales (as per Ang, 2001). Price discounts and credit allowance could further stimulate consumers' demand.

There are several limitations to this study. This study suffers the inherent limitations of a qualitative study. While an attempt was made to include representatives from all socioeconomic, age and gender characteristics, interviewees are not statistically representative and as result findings should be treated as indicative and not conclusive. Larger scale research is necessary to provide further insights, particularly when cultural characteristics are also taken into account.

## Biography

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## AIRLINE SERVICE QUALITY: CUSTOMERS' PERCEPTIONS OF CYPRUS AIRWAYS

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### **Abstract**

The purpose of the present paper is to examine passengers' perceptions of airline service quality and to reveal the gaps between customers' expectations and their actual experience based on the case study of Cyprus national air carrier - Cyprus Airways (CA), a small regional airline facing stiff competition in an era of deregulation. In order to measure the perceived service quality the SERVQUAL instrument has been adopted with addition of technical and image dimensions suggested by Grönroos's model, altering the original models to fit the airline industry. The research results show that customers' experience in most dimensions of contacts with airline is equal to expected and there is a low level of perceived risk traveling with Cyprus Airways among surveyed passengers. Data analyses prioritized the dimensions of technical aspect and reliability as the most important factors in choosing the airline. The study is limited to service quality measurement of Cyprus Airways and is valid and reliable only for this airline. It also excludes factors like promotion, pricing, company's strategy, and other influencers on customers' behavior. Cultural distinctions are neglected due to research's limitation within the local population of Cyprus. Finally the paper concentrates on passengers using economy class only, excluding business class travelers. Based on the results of the research some suggestions and specific recommendations are made to the management of the company regarding some aspects of implementation of a service quality improvement program and wider implications for airlines are also discussed.

**Keywords:** airline; Cyprus Airways; service quality; SERVQUAL; perceived risk; customers' satisfaction;

### **Introduction**

The airline business is a unique and fascinating industry and plays an important role in the service sector (Chan, 2000). British Airways Chairman, Sir Colin Marshall, describing the industry in 1994, called it "the flywheel for the engine of the world's industry" in order to emphasize its contribution to other industries through transportation of passengers and merchandise to required locations throughout the globe (Chan, 2000, p. 1, Chau and Kao, 2009).

In the highly competitive environment of international business companies are trying to find how to succeed, implementing different marketing techniques and following innovative ways aiming to

leave competitors behind for at least a short period of time. Understanding, predicting and advancing competitors as well as building strong relationships with customers, satisfying their needs and demands have become key success factors of business. Firms have discovered customers to be “hidden assets” and customer relationship management, with support of modern software, has developed into an important technique to capture, keep and use information and redesign products to suit specific market environments and different preferences (Barnes, 2000).

The importance of customers’ interaction with a company has been emphasized by the former President of Scandinavian Airlines Jan Carlzon, defining a “moment of truth” in any service business as “anytime a customer comes into contact with any aspect of a business, however remote, is an opportunity to form an impression.” (Carlzon, 1989). In airline industry customers’ expectations are shaped by the “moment of truth”: from the contact with various employees (e.g. personnel from reservations department, the call centre, the ticketing office, facing cabin crew, to solving problems with baggage handling, flight delays, making online booking and in many other aspects of communications (Albrecht, 1992). Carlzon identifies the importance of managing all the small details of entire airline operations transferring the “voice of the customer” into quality efforts in order to generate superior customer satisfaction and loyalty (Carlzon, 1989).

To survive, succeed and stay ahead of their competitors airlines are constantly looking for fresh ideas struggling for the satisfaction of their customers, developing stable and firm relationships with them to obtain loyalty and goodwill, and mobilizing all internal resources to face environmental changes (Airline Business, 1997). Innovations like technological improvements or organizational restructuring are being developed and implemented to build, maintain, and improve operational efficiency, brand strength and outstanding service quality.

The originality of the present study lies into its use of a suitably modified research instrument for measurement of service quality adapted to the conditions of the airline industry and the context of the research, which refers to a small airline in a peripheral island country of Europe that is a popular tourist destination.

Section 2 below presents a literature review, while section 3 describes the methodology that was used. Section 4 describes the analysis of results and finally section 5 summarizes the conclusions and some recommendations

## **Literature Review**

### **Customer satisfaction**

“The today’s life is an environment of service economy where relationships are becoming more important than physical products” (Albrecht, 1988). Business is nothing but relationship (McCormick, 1988) and this relationship is an interactive process within the service industry (Booms & Bitner, 1981). Customers commonly desire personalized and close relationships with service providers (Parasuraman, Berry, & Zeithaml, 1991).

The greatest challenge facing most of the organizations today is the growing competition, the continuous increase in customers' expectations and customers' demands as service improves (Kandampully, 1998). Many marketing strategists emphasize that creation of superior "customer value" is a key element for companies' success (Wyner, 1996; Higgins, 1998; Woodruff, 1997). "...value is like service and quality among marketing terms, in that it must be defined by the customer" (Barnes, 2000). According to Timmers and van der Wiele (1990), satisfying the customer is not enough - there is a compelling need to delight the customer if a competitive advantage is to be achieved.

The concept of customer satisfaction has been analyzed for more than three decades in the light that customers are the primary source of most firms' revenue, the way of success or even more - the way of survival. A positive impact of satisfaction is that it affects repurchase behavior and intent (Sambandam & Lord, 1995, Anderson & Sullivan, 1993) positive word of mouth (Bitner, 1990), customer retention (Bolton, 1998) and use of continuously provided services (Bolton & Lemon, 1999). Customer satisfaction is a key intermediary objective in service operations (Zens, 2001). It heightens customer loyalty, lowers customer's price sensitivity, reduces costs of new customer creation and operating costs due to increase of customers number, improves the effectiveness of advertising and enhances business reputation (Fornell, 1992).

"Everybody knows what [satisfaction] is until asked to give a definition. Then it seems nobody knows" (Oliver, 1997). Defined in various ways, customer satisfaction is described as "consumer's fulfillment response . . . a judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under- or over-fulfillment" (Oliver, 1997, pp. 13-14), "the result of customers' assessment of a service based on a comparison of their perceptions of service delivery with their prior expectations (Chau & Kao, 2009). The exact relationship between satisfaction and service quality remains an area of controversy. Many academics (e.g. Parasuraman et al, 1988; Bitner, 1990; Lewis, 1993), however, suggest that satisfaction is related to specific transactions and is an antecedent to service quality.

### **Customer loyalty and value**

"While service organizations aim to gain customers' loyalty customers, on the other hand, seek an organization's service loyalty as proof of the organization's commitment to offering superior service for both the present and the long term" (Kandampully, 1998, p.432). The criteria for future success will subsequently be determined by the organizations' ability to offer loyalty fulfilling their customers' present needs, anticipating their prospective needs and to enhance an on-going relationship. The challenge for today's organizations is not merely to reach the top, but to stay there (Kandampully, 1998). Customers will remain loyal to the company if the value of what they receive is perceived to be relatively greater than that expected from competitors (Zeithaml & Bitner, 1996). "While service quality has proved to be an essential ingredient to convince customers to choose one service organization over another, many organizations have realized that maintaining excellence on a consistent basis is vital if they are to gain customer loyalty" (Kandampully, 1998, p.433).

In making decisions to return to the service provider customers consider whether or not they received “value for money” (Zeithaml, 1988; McDougall & Levesque, 2000), which is determined by customers’ perception not by suppliers’ assumptions or intentions (Woodruff & Gardial, 1996). Evaluating the competing offerings customers make purchasing decisions with “value” as a key driver (Evans, 2004). Prahalad and Ramaswamy (2004) state that the future of competition relies on an “altogether new approach to value creation”, based on an individual-centered co-creation of value between customers and companies, emphasizing the co-creation experience of the consumer as the very basis of value.

### **Service Quality**

Rapid deregulation and high competition have led many service businesses to seek ways to differentiate themselves. One of the business strategies related to success is the delivery of high service quality (Parasuraman et al., 1988). The concept of service quality has been a current interest of researchers and practitioners because of its sustainability as a “source of competitive advantage” (Prayag, 2007). Service quality is one of the most dominant themes of research in services (Fisk, Brown, & Bitner, 1993), becoming an important research topic because of its apparent relationship to costs, profitability, customer satisfaction, customer retention and positive word of mouth (Buttle, 1996).

Service quality is closely related to the profit and other financial outcomes of organizations (Zeithaml, Bitner, & Gremler, 2006). “Service quality contributes significantly towards service differentiation, positioning and branding. Companies that search for the most effective ways to incorporate the best service methods and processes tend to be winners in the long term in terms of favorable customer perceptions” (Prayag, 2007, p. 495). Quality is the most important decision factor influencing the customer’s buying decisions with strategic benefits of contributing to market-share and return on investments (Phillips et al, 1983).

The concept of “service quality” has been widely investigated and redefined by many researchers. Kasper et al. (1999) define service quality as “the extent to which the service, the service process and the service organization can satisfy the expectations of the user”. Parasuraman (1988) describes service quality as “a function of the difference between service expected and customers’ perceptions of the actual service delivered”. According to Lewis and Booms (1983) service quality is a measure of the degree to which the service delivered matches customers’ expectations.

A number of studies have addressed the relationship between service quality and customer satisfaction and it is generally believed that higher levels of service quality lead to higher levels of customer satisfaction (Pollack, 2008). According to Zeithaml and Bitner (2000) service quality is considered to be a cause of satisfaction, and customer satisfaction and loyalty secured through high-quality products and services providing value for money are essential for long-term survival as well as for long-term success (Cina, 1990; Robledo, 2001).

Understanding customer expectations is a prerequisite for delivering superior service quality, while the importance of delivering “superior service quality” is a “prerequisite for success if not survival”

(Parasuraman, Zeithaml, & Berry, 1988). Service-based companies are compelled by their nature to provide excellent service in order to prosper in increasingly competitive domestic and global marketplaces (Sultan & Simpson, 2000).

Service quality promotes customer satisfaction, stimulates intention to return and encourages recommendations (Nadiri & Hussain, 2005), while customer satisfaction increases profitability, market share and return on investment (Barsky & Labagh, 1992). Zeithaml et. al (1990) state that superior quality is proved to be a winning competitive strategy of the company. Service, both poor and outstanding, has a strong emotional impact on the customer, creating intense feelings about the organization, its staff and its service, and influencing the loyalty to it (Wirtz & Johnston, 2003). Excellent service pays off because it creates satisfied and loyal customers (Zeithaml, Parasuraman, & Berry, 1990).

### **Airline Service Quality**

“Airline service quality and the role it plays in a business strategy of differentiation, has therefore assumed greater importance in recent years. This is particularly noticeable on the higher yield international long haul routes where service quality is viewed, not only as an important part of competitive strategy, but a key resource for building competitive advantage over rivals” (Tiernan, Rhoades, & Waguespack, 2008, p. 214). Service quality is a significant driver of passenger loyalty and choice of airline (Sultan et al 2000).

Some airlines are trying to build “five star travel experience” (Qatar Airways), some are following the vision of “airline of excellence”, offering the very best to its passengers (Malaysian Airlines), while others are focusing on low-cost and low-price strategies at the same time maintaining and improving high standards of service quality and adding value to customers’ experience.

Having the unprecedented freedom of operations in today’s liberalized markets air carriers compete by providing flexible flights schedules, variety of directions, informational network and highly trained professional staff. Finding ways to be the unique, building strong brand name, launching new destinations, providing modern facilities during the flight, developing customer relationship management, trying to maintain passengers’ loyalty, joining alliances and cooperating with related or supportive industries has become the main strategy direction, trend and challenge for most of the commercial airlines today.

### **Measuring Service Quality**

In the service industry understanding customers’ expectations is essential to provide the desired level of service quality, which is found to be measured most accurately through the eyes of the customer (Miller, 1992). Customers are never mistaken when they say that (service) quality is bad, because if they perceive it is so, it necessarily is so (Schneider & Bowen, 1995).

Service organizations understandably are under the constant pressure of outperforming their competitors and it is important to measure the service quality and its subsequent management (Lee, 2001). Companies use a combination of methods to follow the trends of changes in customers’ needs

and perceptions of service quality. Zaid (1994) suggests that regular service rating by passengers through in-flight surveys can be used to monitor service quality in the airline industry.

Based on the results revealed from in-depth interviews with senior executives, a research team headed by Parasuraman, Zeithaml and Berry (1985) developed a conceptual framework called the SERVQUAL or GAPS model (Figure I.) which has become the most comprehensive and widely used model to understand service quality within organizations. The scale of the 22 statements of SERVQUAL model has been applied across many service industries and different international markets (as well as being used to measure the airlines service quality) (Prayag, 2007; Arambewela & Hall, 2006, Nel et al., 1997; Sultan & Simpson, 2000, Zhou, 2004). Parasuraman et al. 1985, define service quality as the degree and direction of the gap between customers' expectations for the service quality and their perceptions of the service performance.

Parasuraman et al. (1985; 1988) identify the four gaps within the service organization that result in service quality problems and dissatisfaction that may lead to the fifth and most serious gap: the difference between customers' expectations and perception of what was delivered. The definitive goal in improving service quality is to narrow the fifth gap as much as possible by reducing the four gaps through diagnosing the causes and correcting internal deficiencies of the organization (Parasuraman, 2004).

Defining the dimensions of service quality Parasuraman et al. (1988; 1991) grouped them into five groups: reliability, responsiveness, assurance, empathy and tangibles, initially suggesting that service quality also consists of functional and technical dimensions – process and outcome (Parasuraman, Berry, & Zeithaml, 1985). However the SERVQUAL instrument doesn't include any measure of the technical quality dimension.

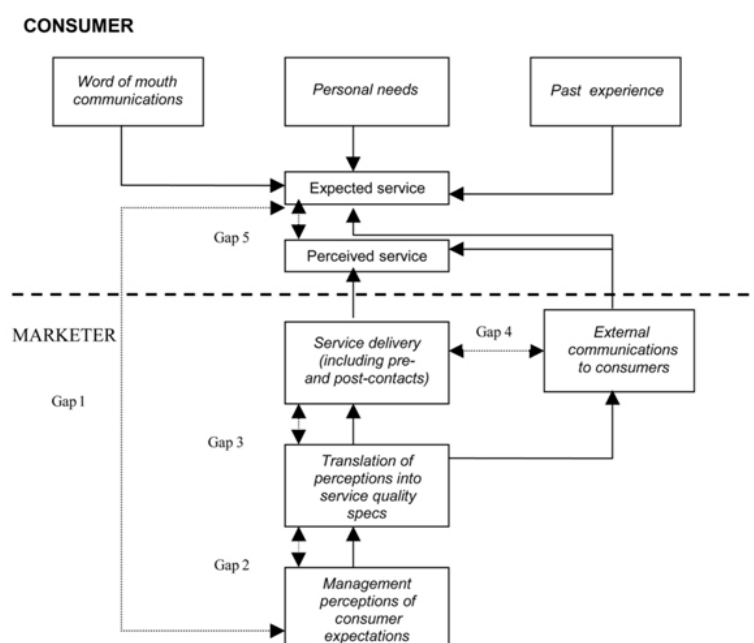


Figure 1: Conceptual Model of Service Quality (SERVQUAL)

*Source: Parasuraman, A., Berry, L., & Zeithaml, V. (1985). "A conceptual model of service quality and its implications for future research". Journal of Marketing , Vol. 49, p. 44.*

With the suggestion, that the perceived service quality model should replace the product features of a physical product in the consumption of services Grönroos (1982) outlined two additional dimensions of service quality - technical and functional, proposing the extended model of service quality measurement by adding the dimensions of image and technical aspects.

Grönroos (2001) states that the unique characteristic of services is the fact, that service is a process, not a thing. A company, providing services has no products, but only interactive processes. Service is a process that leads to an outcome during partly simultaneous production and consumption processes (Grönroos, 2001). Grönroos emphasizes the importance of corporate image in the experience of service quality, similar to the idea proposed by Lehtinen and Lehtinen (1991). Customers bring their earlier experiences and overall perceptions of a service firm to each encounter because customers often have continuous contacts with the same service firm (Gronroos, 2001). Therefore, the image concept was introduced as another important component in the perceived service quality model (Figure II.), so that the dynamic aspect of the service perception process was considered as well, defining service organizations image as "filter in the perception of service quality" (Kang & James, 2004).



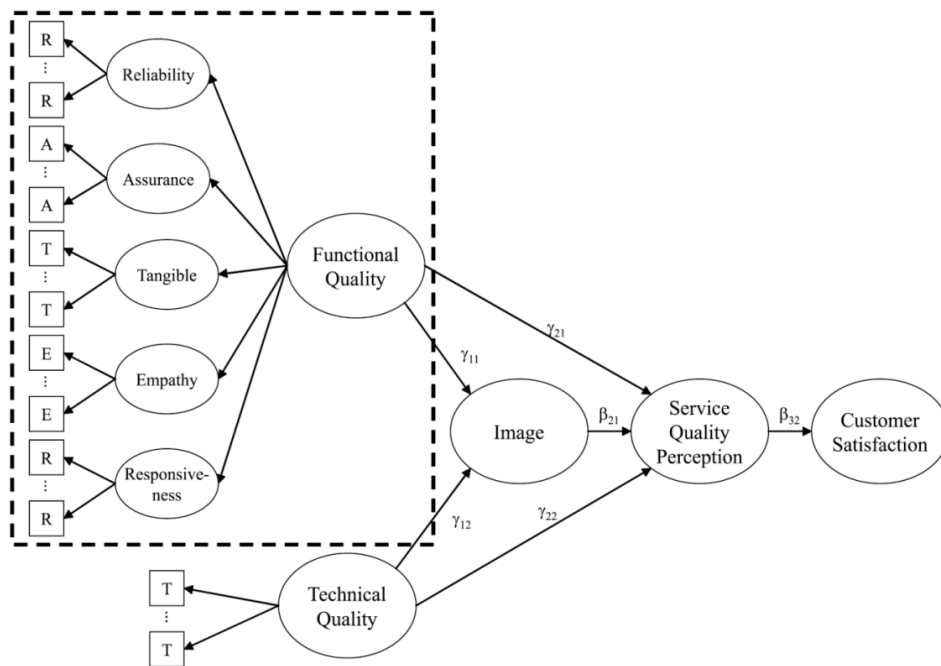


Figure 2: Service quality model

Source: Kang, G.-D., & James, J. (2004). *Service quality dimensions: examination of Gronroos service quality model. Managing Service Quality*, Vol. 14, p. 269.

### SERVQUAL in airline industry

The first direct application of the service quality gap model in the airline industry was presented by Fick & Ritchie in 1991, when they used the SERVQUAL scale to measure perceived service quality within several industries including the airline industry. Several teams of researchers compiled industry-based measures of airline service quality comparing them with the SERVQUAL model in terms of their ability to predict customer satisfaction. They found SERVQUAL measures to be as strong as the industry-derived measures in predicting perceived quality and were the only significant predictors of intention to re-patronize (Cunningham, Young, & Lee, 2004).

The other important factor affecting customers' evaluation of the airline service quality is perceived risk. Bauer (1960, p. 24) states that "consumer behavior involves risk in the sense that any action of a consumer will produce consequences which he cannot anticipate with anything approximating certainty, and some of which are likely to be unpleasant". Consumers generally feel a higher level of risk when purchasing a service than when buying a manufactured product, because services are basically intangible and difficult to test before (and sometimes even after) purchase (Murray, 1991; Lovelock et al, 1999).

Most of the travel experiences rely on intangible services and it is expected that travelers' perception of risk is likely to be high and such a perception would influence their evaluations of the travel services (Moutinho, 1987). The perceived risk in the context of airline selection is still inadequately researched, but the existing evidence implies its potentially significant influence on

evaluations of airline service quality (Roehl & Fesenmaier, 1992). According to Roselius (1971) perceived risk is usually measured as a multidimensional construct of financial, physical, psychological, performance, time and social risks.

Based on the above literature review the following research questions have been investigated:

Q1: What dimensions of SERVQUAL model do customers prioritize in choosing the airline?

Q2: What is the level of perceived service quality among Cyprus Airways (CA) passengers?

Q3: What is the level of perceived risk choosing CA?

## Methodology

The sample consists of customers/passengers of Cyprus Airways and a non-probability judgmental sampling technique has been implemented. According to Judd et al. (1991) the judgmental sampling method proposes identifying typical cases of the population we are interested in, assuming errors of judgment in the selection to be balanced by one another. The paper focuses on collecting, analyzing and comparing data in order to identify the level of perceived service quality, to rank critical elements influencing passengers' choice of airline and to measure the risk passengers perceive in choosing CA as a service provider.

200 questionnaires were distributed and administered using face-to-face interviews with CA passengers. Survey respondents were asked to fill out questionnaires after identification of whether they had a previous experience flying with CA. Of these, 194 questionnaires were usable and six have been excluded because of missing data. The research was conducted in August 2009 and data has been analyzed using SPSS 16.0 version statistical software.

The research focused on Gap-5, the difference between customers experience and expectations of service. The result could be either positive (the experience was better than what the passengers expected) or negative (the experience was worse than expected). In order to measure the perceived service quality the SERVQUAL instrument developed by Parasuraman et al. (1985, 1988) has been adopted with addition of technical and image dimensions as per Grönroos's model (1982, 1990). The questions of the original SERVQUAL instrument were altered to fit the airline industry.

The first section of survey questionnaire gathered respondents' demographical characteristics such as age, gender, income and the service class of travel together with the total number of trips during last year as well as CA flights.

The main part of the questionnaire included a total of 38 items in order to measure service quality: five-items for tangibles (TAN), five-items for reliability (REL), four-items for responsiveness (RES), five-items for assurance (ASR), ten-items for empathy (EMP), three-items for technical aspect (TECH) and five-items for image (IMG). A five-point Likert scale has been used comparing the perception of service quality with the experience received as follows: 1-much worse than expected, 2-worse than expected, 3-equal to expected, 4-better than expected, 5-much better than expected. Therefore, unlike SERVQUAL, the direct scale used in the present research addresses the psychometric limitations of

SERVQUAL (see for example, Carman, 1990 and Brown et al, 1993). This alternative scale known as SERVPEX incorporates both expectations and perceptions, is easier to administer, and was found superior to SERVQUAL (Robledo, 2001). The research includes prioritization (ranking in order of importance) of the service quality model's dimensions (tangibles, reliability, responsiveness, assurance, empathy, technical aspect and image), which passengers consider when choosing an airline.

Finally the last section of the questionnaire aimed to find out the level of perceived risk among passengers of CA. On a 7-point scale the perceived risk was ranked from "1"-meaning no risk to "7"-high risk level. Perceptions of six attributes of overall, financial, performance, physical, psychological and social risk were measured.

One-sample t-tests have been implemented to analyze the data collected. According to the sample size in our case study and based on the Central limit theorem the reasonable assumption that the data is approximately normally distributed was made and the 95% confidence interval for the difference between the mean and hypothesized test value was adopted (the level of sampling error 0.05). The value of 3 (three) of the five point scale was used in data analyses for separation between satisfied and dissatisfied passengers, according to the hypothesis: Null  $H_0: \mu=3$ ; Alternative  $H_1: \mu<3$ , assuming that satisfied passengers have experience equal to or more than expectations.

## Analyses of results

The surveyed sample profile (Table I.) shows respondents' demographical distribution. Most of the respondents (55.7 per cent) were male and as for the age the majority falls between 21 and 30 (54.1 per cent). Concerning the monthly income 34.5 per cent of the surveyed respondents earn 1.000€-1.500€ and 50.0 per cent of the respondents used the services of CA only once for the last year period.

Based on the results listed in Table II the Null Hypothesis has been proved in most cases with a slight deviation from the mean, assuming the overall perception of service quality within CA passengers being equal to expected.

The top five attribute qualities for Cyprus Airways have been identified to be TAN3, ASR17, ASR18, TECH33 and IMG37 and as per surveyed travelers of CA the worst service attributes were IMG36, TAN4, TAN5, REL7 and EMP30. The best attribute observed was the statement of assurance's dimension (ASR18) "if you feel safe flying with Cyprus Airways", emphasizing perception of safety among passengers and experience received "better than expected". Most of the respondents experience the "expensiveness of ticket fares" (IMG36) comparing with competitors. The high level of dissatisfaction was mentioned as a "worse than expected" by most of the respondents concerning TAN4 and TAN5 as for "in-flight entertainment" and "food and beverages" variety respectively.

	<i>Frequency (F)</i>	<i>Percentage (%)</i>
<i>Gender</i>		
<i>Female</i>	86	44.3
<i>Male</i>	108	55.7
<i>Total</i>	194	100.0
<i>Age</i>		
<i>Less than 20</i>	3	1.5
<i>21-30</i>	105	54.1
<i>31-40</i>	49	25.3
<i>More than 41</i>	37	19.1
<i>Total</i>	194	100
<i>Income</i>		
<i>Less than 1.000 €</i>	45	23.2
<i>1.000€-1.500€</i>	67	34.5
<i>1.500€-2.000€</i>	31	16.0
<i>More than 2.000€</i>	51	26.3
<i>Total</i>	194	100.0
<i>Airplane trips with CA for last 1 year</i>		
<i>period</i>	97	50.0
<i>1</i>	51	26.3
<i>2</i>	13	6.7
<i>3</i>	17	8.8
<i>4</i>	9	4.6
<i>5</i>	3	1.5
<i>6</i>	2	1.0
<i>7</i>	1	0.5
<i>8</i>	0	0
<i>9</i>	1	0.5
<i>10</i>	194	100.0
<i>Total</i>		

Table 1: Demographics of the sample (n=194)

Test Value = 3		95% Confidence Interval of the Difference				
Scale items		t	Sig. (2-tailed)	Mean Dif	Lower	Upper
TAN1	Aircrafts are clean and modern looking	2.903	0.004	0.12887	0.0413	0.2164
TAN2	Seats in the passenger cabin are spacious and comfortable	-0.569	0.570	-0.02577	-0.1151	0.0636
TAN3	The employees are well dressed and neat-appearing	8.300	0.000	0.42784	0.3262	0.5295
TAN4	In-flight entertainment is interesting and various	-3.197	0.002	-0.20619	-0.3334	-0.0790
TAN5	CA has a variety and high quality of food and beverages	-4.666	0.000	-0.30412	-0.4327	-0.1756
REL6	The flights depart and arrive according to schedule	-0.580	0.562	-0.03608	-0.1587	0.0866
REL7	Customers' complaints are handled with a sincere attitude and support	-3.318	0.001	-0.18041	-0.2876	-0.0732
REL8	Check- in procedure is quickly and accurately	1.338	0.183	0.07216	-0.0342	0.1786
REL9	All my requests are solved and responded from the first time	-1.479	0.141	-0.08763	-0.2045	0.0293
REL10	Ground and in-flight services are appropriate	2.692	0.008	0.12887	0.0345	0.2233
REL11	I have no worries about luggage getting lost especially with a transfer flight.	2.109	0.036	0.12887	0.0084	0.2494
RES12	Cyprus Airways provides prompt information about any changes of flight	0.350	0.727	0.02062	-0.0956	0.1368
RES13	Employees always respond to passengers requests promptly	0.870	0.386	0.04639	-0.0588	0.1516
RES14	Employees are always willing to help you	1.871	0.063	0.11340	-0.0061	0.2329
RES15	Cyprus Airways as attentive to passenger's needs	2.531	0.012	0.13918	0.0307	0.2476
ASR16	The employees of Cyprus Airways are professional and knowledgeable	3.406	0.001	0.17010	0.0716	0.2686
ASR17	Probability of flight breakdowns is low	7.732	0.000	0.41753	0.3110	0.5240
ASR18	You feel safe flying with Cyprus Airways	10.746	0.000	0.61340	0.5008	0.7260
ASR19	Employees instill confidence to passengers	6.233	0.000	0.32990	0.2255	0.4343
ASR20	Employees are polite every time	4.750	0.000	0.28351	0.1658	0.4012
EMP21	Cyprus Airways gives you individual attention	-1.672	0.096	-0.06701	-0.1460	0.0120
EMP22	Cyprus Airways has numerous and convenient ticketing channels	0.933	0.352	0.04639	-0.0517	0.1445
EMP23	Cyprus Airways has useful and flexible web to book my trip	5.572	0.000	0.35052	0.2264	0.4746
EMP24	Cyprus Airways has a wide directions of the flights	0.646	0.519	0.03608	-0.0741	0.1462
EMP25	Cyprus Airways has a convenient flight scheduling	5.114	0.000	0.25773	0.1583	0.3571
EMP26	Cyprus Airways cares and concern for passengers needs	3.934	0.000	0.18557	0.0925	0.2786
EMP27	Flight attendants give you personal attention	0.210	0.834	0.01031	-0.0864	0.1070
EMP28	Loyalty program is to recognize you as a frequent flyer	0.561	0.575	0.03093	-0.0778	0.1397
EMP29	Cyprus Airways has partners to assist your travel (car rental, hotels etc)	-1.178	0.240	-0.06186	-0.1654	0.0417
EMP30	Cyprus Airways understands "why you fly"	-2.445	0.015	-0.13402	-0.2421	-0.0259

TECH31	All airplanes are modern and in good order	0.163	0.871	0.01031	-0.1145	0.1351
TECH32	Pilots are highly trained and professional	7.464	0.000	0.40206	0.2958	0.5083
TECH33	Cyprus Airways is a reliable company in technical aspects	8.291	0.000	0.45361	0.3457	0.5615
IMG34	Cyprus Airways is a successful company	0.142	0.887	0.01031	-0.1324	0.1530
IMG35	Cyprus Airways has a good reputation in the international market	3.045	0.003	0.20103	0.0708	0.3312
IMG36	Ticket price of Cyprus Airways is "cheap" comparing with other airlines	-6.076	0.000	-0.44845	-0.5940	-0.3029
IMG37	The logo of Cyprus Airways is recognizable	7.968	0.000	0.48454	0.3646	0.6045
IMG38	Cyprus Airways is sincere to the passengers	2.886	0.004	0.17526	0.0555	0.2950

Table 2: T-test of the sample (n=194)

Based on the results of our research we were able to answer the questions stated before as objectives of our survey as follows.

Q1: What dimensions of SERVQUAL model do customers prioritize choosing the airline?

Section 2 of the questionnaire asked respondents to prioritize the dimensions of SERVQUAL in order of importance by a 7 score scale (1 = most important, 7= least important) and the findings are given in Table III. The means comparison revealed technical and reliability factors to be the most important in choosing airline for CA surveyed passengers.

	N	Mean	Std. Deviation	Variance
Technical	194	1.9897	1.66023	2.756
Reliability	194	2.9124	1.32632	1.759
Tangibles	194	3.5979	1.76998	3.133
Responsiveness	194	3.8866	1.18169	1.396
Assurance	194	3.9845	1.52518	2.326
Empathy	194	5.3247	1.51083	2.283
Image	194	6.2113	1.53430	2.354

Table 3: Service Quality dimensions' prioritization

All aspects of technical dimension show the level of experience to be "better than expected". Passengers have however experienced two aspects of the reliability dimension (REL7, REL9f) to be below their expectations (as illustrated in Table II).

Q2: What is the level of perceived service quality among CA passengers?

Satisfaction level (experience of the surveyed passengers observed) within most components of the service quality model has been revealed to be equal to expectations for most of the 38 attributes with a 95 percent confidence level, apart from 10 attributes with less than expected perception levels (Table II). The detailed results for each dimension are given below:

- Technical quality (success to complete the trip) by passengers' view was the first most important factor choosing the airline and the analyses of the attributes' means show passengers' experience to be equal to expected. The subjective evaluation of pilots' professionalism and perception of "Cyprus Airways to be a reliable company in technical aspects" was measured to be "better than expected".
- Reliability dimension (on time departure/arrival, consistent service) prioritized as second factor by surveyed customers, includes three out of six attributes with negative responses. Experience with the "scheduling and punctuality", "handling of customers complaints" and "prompt solving of the problems" have been found to be "worse than expected" for the majority of surveyed passengers.
- Tangibles (the third feature in order of importance), includes airplanes, facilities, equipment, and appearance of personnel. CA has a lot of weak points causing customers' dissatisfaction. The important dimensions that require careful attention and examination for further improvement are the "in-flight entertainment programs" together with the "variety and quality of food and beverages".
- Responsiveness (willingness to help customers and provide prompt service), the fourth by scale of importance dimension, has received a positive evaluation in all four aspects with the experience being equal to expected.
- Assurance (knowledge and courtesy, employees' capability) selected as a fifth feature by CA surveyed passengers has shown customers' satisfaction in all attributes included. The highest mean has been gained by feature "feeling safe flying with Cyprus Airways", emphasizing the positive perception of security and safety flying with the airline.
- Empathy (individualized attention, caring) with all aspects of dimension equal to expectations underlines the professionalism of employees contacting passengers and satisfaction with customer service level.
- Image (the public perception about image of CA) is the last, seventh in order of importance dimension. Results indicate ticket's fares and pricing policy of CA as "being non-competitive in the market". Management of Cyprus Airways should take actions to improve the image of "being expensive" implementing some pricing policy programs including

seasonality, early booking or last moment offers together with conducting detailed research of competitors.

Q3: What is the level of perceived risk in choosing Cyprus Airways?

The positive results (Table IV) emphasize the low risk level in all six dimensions of perceived risk included in the questionnaire. In most cases the means of the attributes were around 2.5 out of 7 underlining the low level of risk perception among surveyed passengers of CA, which is a positive indicator in the overall picture of service quality. As a member of EU the air carrier of Cyprus is obliged to follow rules and regulations protecting passenger's rights as well as safety procedures and standards, which plays an important role of passengers' perception of risk involved. It is worthwhile to mark out the level of performance risk (risk of receiving bad airline services) which has been named to be the highest comparing with other five.

	<i>N</i>	<i>Mean</i>	<i>Std. Deviation</i>	<i>Std. Error Mean</i>
<i>Overall Risk</i>	194	2.4845	1.08321	.07777
<i>Financial Risk</i>	194	2.5619	1.34619	.09665
<i>Performance Risk</i>	194	2.6649	1.14544	.08224
<i>Physical Risk</i>	194	2.4021	1.01450	.07284
<i>Psychological Risk</i>	194	2.4536	1.06786	.07667
<i>Social Risk</i>	194	2.2423	1.15533	.08295

Table 4: Perceived Risk

## Conclusion and recommendations

The result of the overall evaluation of Cyprus Airways perceived service quality is positive, especially aspects related to risk perception. There are, however, several aspects to be improved by the management of CA in order to increase the level of satisfaction among their customers, paying attention mostly to factors prioritized by surveyed passengers.

The first two dimensions of the SERVQUAL model (technical and reliability) that surveyed passengers have ranked to be most important require more attention to overcome the obstacles. Even though the results regarding technical aspects are not negative, they are far from perfect.

The reliability dimension includes timely flight departures and arrivals, sincere and supportive handling of the complaints, sufficiency of the check-in procedure, solving the problems from the first time, appropriate provision of the ground services and remedial procedures of delayed and missed baggage. These six factors play an important role in overall airline operations and improvement can be achieved without huge investment within a short period of time. The prompt response is usually



appreciated by customers, and this aspect needs to be investigated as well as the handling of customers' complaints. Passengers also perceive a lack of personal attention and some improvements of customer relationship management are advised to be implemented together with providing customer service training programs to employees. Enhancing control, monitoring, and actions' coordination can considerably improve the perception of passengers, leading to positive word of mouth and an increase in the level of satisfaction.

CA needs some investments in tangibles. Creating enjoyable environment for passengers is vital, therefore in-flight entertainment is an important aspect to pay attention and enhance. The other factor of the tangible dimensions is the variety and quality of food and beverages, where the results of the research emphasize the importance of complaint investigation and changes as a component of the service quality improvement program. The aspect of "seats in the passenger cabin are spacious and comfortable" from tangibles dimension and perception of the pricing policy included in questionnaire as a component of image have received negative responses underlying passengers' dissatisfaction. It is worthwhile to mention, that quality expectations are usually connected to price, customers are paying for the service and the negative response of those two dimensions might be a sign that service and price doesn't match each other, leading to the importance of either pricing policy revision or service improvement as an appropriate solution.

Training and employees' performance evaluation is essential within service industry especially in airline business. Providing informative feedback on employees' performance, using differential rewards, and measuring performance by customers' feedback of using different kind of techniques can improve employees' performance and raise passengers' perceptions. Responsiveness can be improved by short and long term planning and management should give priority to required actions to achieve the desired outcome.

The dimension of assurance can be considered the one, where surveyed customers feel more confidence and their experience with Cyprus Airways exceeds expectations. But taking into consideration that achieving excellence is a constant process and there is always room for improvement, management of the airline should continuously keep pace with the trends of the industry turning excellence into habit.

In an era of a high level of competition and deregulation the survival of a "small country" airline is difficult, and service quality could be one of its core competencies. Together with the seven dimensions of Grönroos's model, the willingness to recommend the airline to others and spread positive word -of -mouth can open avenues for additional research. The extension to business class travelers will also be an interesting subject for further research. The findings can be used by CA management as well as by management of other airlines to have a picture of airline service quality perceptions and expectations in Cyprus market.

## Biography

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## COMPARATIVE ANALYSIS ON CAUSES OF SICKNESS AND TURNAROUND STRATEGIES AT PUBLIC AND PRIVATE ORGANIZATIONS

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### Introduction

Industrial sickness is so widespread that it is found both in public and private sector organizations. Since sickness in industries affects the entire organization and the country as a whole, there is a need for the organizations to take measure to restore its health. This process of bringing an organization from sickness to health is known as turnaround. Different organizations adopt different strategies for bringing about turnarounds. Literature attempts to show that there are differences in the strategies used by the public and private sector organizations. Industries are an integral part of a nation's economy. With growing industrialization, the incidence of industrial sickness has also been on the rise and a huge amount of scarce resources of banks and financial institutions remain locked up in the sick unit (Singh 2007). In a dynamic set up industrial units that are non-competitive, uneconomical and inefficient become sick and die out when new and more efficient units come up to take their place. A turnaround situation is one where a company suffers declining economic performance for an extended period of time and the performance level is so low that the survival of the company is in threat unless efforts are made to improve its performance. Achieving turnaround calls for totally a different skills to probe into the cause of a decline and formulating an appropriate strategy to transform the company for a fresh lease of life (Prasad 2006)

### Problem Definition and Importance

Organizational failure has been defined as an 'existence-threatening decline' in performance (Pandit, 2000) but that decline may be sudden or gradual, and can be precipitated by internal actions or inactions or by external circumstances and environmental factors. It rapidly becomes evident that organizational failure is a symptomatic rather than a diagnostic term, in other words it describes a situation facing an organization but does little to help us understand how that situation was caused or came about, or what could or should happen next (Walshe 2004). Corporate failure is one of the major socio-economic problems of developing as well as developed nations. Growing incidence of sickness is seen both in public and private sector. It is generally believed that public sector organizations are more prone to sickness rather than large units in private sectors (Manimala 1991). This is because there is a tendency for public sector organizations to postpone turnaround actions because of stakeholder apathy or budgetary support, such apathetic wait which cannot continue forever. It is worth noting that even though the problem of Industrial sickness has found serious propositions in the economy, there appears to be lack of unanimity on the concept of industrial

sickness. The reason being both researchers and practitioners consider the term in different perspective and thus the term gets defined from different view points (Singh 2007).

If the decline is unchecked or not responded to appropriately, the decline continues and comes to such a stage, where the organizations performance would be failing. It therefore, becomes clear that the failure to identify sickness in time is one of the symptoms of sickness. Effective diagnosis of sickness is essential before selecting a turnaround strategy. Symptoms are indication of sickness as they provide warning to all concerned parties about the presence of the problem. These warning signals are in play through out the process of decline (Ford 1995). In the business world the only thing that really matters is an organization's performance. Too often, we see organizations that, for a variety of reasons, are not demonstrating performance that is acceptable to stockholders, analysts, vendors and employees. When this occurs, there is only one thing that should be done which is to develop a turnaround strategy. Achieving turnaround calls for totally a different skills to probe into the cause of a decline and formulating an appropriate strategy to transform the company for a fresh lease of life (Prasad Vara, 2006). And it is on this basis that the study proceeds. This study aimed at understanding the internal and external causes of sickness and key differences in turnaround strategies adopted by public and private sector.

### **Literature on Causes of Industrial sickness and turnaround Strategies**

An industrial unit may become sick for variety of reasons as the causes or factors which lead to sickness are varied and numerous. It is difficult to give an exhaustive list of such causes or factors of sickness. However, attempts have been made to develop list of these factors by different scholars (Barker 2005). Management action is employed in an attempt to save these organizations by implementing turnaround strategies (Hofer, 1980, Slatter 1999).

#### **Internal and external characteristics of failure**

Various causes and factors of industrial sickness may be divided into two broad categories, that is, internal and external causes (Barker and Duhaime, 1997, Bruton et al., 2000). Some authors indicate that both sources of decline may overlap (De Witt, 1998). This demands a complex managerial response in terms of operating solutions such as retrenchment and strategic solutions like asset reconfiguration, market re-positioning (Igor Filatotchev and Steve Toms 2006).

The internal causes of sickness relate to disorders in any of the functional areas of the industrial unit. In general, these causes relate to production, marketing, finance, personnel and corporate planning. Since, these causes arise because of the poor performance of one or more of the internal functional area of the unit, they are generally controllable in nature, provided these are noticed on time and remedial measures are taken to improve the efficiency and functioning of that functional area. The other side of the causes of sickness emanate from the external environment (Social, political and international environment) of the industrial unit. In general, sickness arising out of any external cause is beyond the control of the unit's management. These external causes of sickness have their adverse impact on internal factors also. These, at times, create complex constraints on production,

marketing, finance and personnel functions of the management. Thus, the external factors give rise to internal causes of sickness and thereby they accentuate the problem for the unit. To develop a better understanding of the problem, it requires a deeper look and analysis of the various causes of industrial sickness as they have operated in India.(B.K.Singh-ICFAI 2007)

Internal causes of decline may be due to erosion of efficiency, past managerial mistakes, inertia leading to mal adaptation, erosion of competitiveness, availability of resources and so on. (Barker and Duhaime 1997, Bibeault 1982, Pearce and Robbins, 1993). Panchali 2005 state that the causes of sickness which are internal are major product failure, poor diversification, poor control systems, cost slippage. Other internal causes of sickness are finance, production and marketing/distribution include within them accounting, production and advertising. Management has direct control over these aspects, yet 80 percent of business failure arises due to management's inefficiency to control the internal elements of business (Scherrer, 2003). Some of the often-cited symptoms or causes of failure are primarily internal to the organization, such as poor leadership (Balgobin and Pandit,2001, Walshe, 2004).

The external causes are commodity price shock, political intervention, major technology change, low cost foreign competition. (Panchali ,2005), adverse governmental or controlling authority behaviours, adverse market environment, industrial unrest, insufficient or excessively costly inputs, others(natural calamities). The major external causes of business decline are external market changes, unforeseen competition, financial market instability and technology changes(Khandwalla1992, Pearce and Robbins1993, Scherrer 2003). While other external causes are concerned with its environment, such as increased competition, product or service innovation, or changes in customer expectations (Balgobin and Pandit,2001, Walshe 2004) also, decline can be caused by changes in technology, a recession, the moves of competitors or numerous other causes that hurt the organization's ability to achieve its mission (Barker 2005).

### **Turnaround strategies**

A corporate turnaround may be defined simply as the recovery of a firm's economic performance following an existence threatening decline' (Pandit, 2000, Walshe 2004). Khandwalla(1992) defines a corporate decline as "a loss situation" and turnaround as "equivalent to reaching at least a breakeven from a loss situation". Turnaround is usually experienced by mature organizations (Miler and Friesen, 1984; Pascal, 1999). Turnaround researchers have identified a number of turnaround actions/strategies. These actions are classified into strategic and operational actions (Schendel, Patton and Riggs 1976, Hofer 1980), entrepreneurial and efficiency actions (Hambrick and Scheter,1983). Khandwalla's (1992), analysis of the turnaround actions lead to four broad themes under the functional areas that are found across studies-Human resources strategies, Product/market strategies, Financial strategies, production, operations and Technology strategies.

### **Human Resource strategies**

The human resources have to actively partner with the business leadership and develop strategies to create capabilities within the organization to speed up the execution of corporate turnaround (Prasad Vara 2006). Literature on human resources strategies has a lot written on downsizing efforts, especially those adopting a top-down approach, simply focus on reducing the number of employees (Cameron 1994, Cascio 2003). Firms experiencing negative trends of performance typically resort to retrenchment as the likely turnaround strategies (O'Neill 1986, Pant 1991, Robinson 1992, Smith 1995). According to Mishra and Mishra (1994), the downsizing, which took place in the early 1980s, was mainly an effort to reduce the number of employees in order to stay competitive. That trend continued into the 1990s with firms attempting to cut costs to remain competitive in the global marketplace (Appelbaum et al., 1987a; Cameron et al., 1991).

Change in top management is another well identified human resource strategy. Leaders are often a contributing source of decline (Arogyaswamy et al., 1995). Executives either directly caused the problems at the heart of crisis or failed to recognize the problems early enough (Bibeault, 1982). The first step or first priority in a turnaround hence is the recognition that new management can make the difference (Barker and Mone, 1998, Jacoby, 2004. Murphy and Meyers, 2008). Top management change is widely quoted as a precondition for successful turnarounds (Bibeault, 1982; Hofer, 1980, Schendel, Patton and Riggs 1976, Slatter, 1984). The nature of the top management team in a company is of greater significance for success or failure than any of the company's products or skills or Physical assets (Murphy 2008). Empowered employees are energetic, passionate and experience a feeling of ownership over jobs, Performance management leads to better results, Employees need to be encouraged and motivated to develop a customer satisfaction mindset (Prasad vara, 2006)

### **Financial strategies**

The objective of financial strategy is to use the financial strength of the business as an asset and to restructure the business (scherrer 2003) such as reduction in the par value of shares, reduction in rates of interest, postponement of maturity of debt, conversion of debt into equity (Kumar 2003). Robbins and Pearce (1992) also linked strategic choice for declining firms to financial performance. They suggested that as severity of decline increased, retrenchment strategies should progress from cost reduction to asset reduction strategies (Howard 2005). Research on turnaround suggests that the performance outcomes of asset and cost retrenchment are contingent on industry dynamics (Chowdhury and Lang 1996, Morrow et al., 2004). Turnarounds cannot be sensibly analyzed without taking into account the context of the financial obligations and related governance arrangements. (Igor Filatotchev and Steve Toms 2006, Kumar 2003). Hofer (1980) and Robbins and Pearce (1992) argue that severely financially distressed companies need to make aggressive cost and asset reductions in order to survive. Slashing labor costs, production costs, selling and administrative expenses, R&D expenditures, and financing costs are common measures of corporate restructurings (Denis and Kruse, 2000, Beixin et al 2008). However, as Slatter (1984) highlights, the aggressive reduction of costs and assets is no easy task as there is often organizational resistance to such action.



Asset-reduction strategies have been recommended for failing companies in order to improve cash flow (Hofer, 1980, Taylor 1982, Hambrick and Schecter, 1983, Robbins and Pearce, 1992). as companies with high fixed costs become vulnerable to market changes. Hoffman (1989) also states that cost cutting is the key to successful turnaround. These two strategies are viewed as retrenchment strategies (Hambrick 1985). Research identifies financial restructuring as an integral component of turnarounds (Brown et al., 1993, DeAngelo and DeAngelo, 1990, Franks 199, Igor 2006).

### **Marketing strategies**

Marketing is a very useful strategy for turnarounds (Hofe 1980, Griyner et.al.,1988, Goldston,1992). In the company turnaround literature, while a number of writers emphasize the importance of marketing in the rescue of ailing businesses (Goldston, 1992, Grinyer et al. 1988, Hofer, 1980). Little attention has been directed at the value of market intelligence and planning in the company turnaround process.(Harker 2001). The marketing oriented business is customer focused and a generator and disseminator of market intelligence which is widely used throughout the firm (Jaworski 1993) such firms are able to sense and respond to market forces with greater precision than more inward looking rivals (Day 1994). However, there is scant attention in the literature on the role of marketing and sales in the company turnaround process (Goldston 1992)

Sales function is another key process and involved four important elements which were more apparent in the successful firms such as :1) environmental comprehension; 2) market selection; 3) innovative market offers; and4) managed relationships.(Bibeault 1982, Finkin 1998, Harker 1998). Much has been written about marketing orientation in the management and marketing literature (Jaworski 1993, Slater 1999), and customer focus was an important feature of the successful turnaround companies Customer focus permeated the whole company and was fully supported by top management. The turnaround companies' customer efforts were orchestrated by new key account sales people who worked tirelessly to build the respect and trust so essential to a sound relationship (Swan 1988, Harker 1996). Poor quality of product being a cause of failure, Successful businesses compete on quality not costs, developing strategies for competitive advantage(Rosairo 2004). Repositioning has also been described as an 'entrepreneurial' turnaround strategy. Market penetration and niche positioning turned out to be valuable strategies for the successful companies (Hofer, 1980).

### **Production/Operation Strategies**

Hofer(1980) in a study of twelve cases of badly performing organizations, where he found for operating problems the solution is operating remedies and for strategic problems, strategic remedies. Thus, Organisations that are failing due to operational causes opt for operational turnaround strategies and strategic causes opt for strategic turnaround and rarely were operational failure addressed with strategic turnaround actions.(Hambrick and Schecter1983)

## General Strategy

Contraction and consolidation are used when a corporation's problems are not pervasive (Pearce and Robinson, 1992). However, researchers have largely ignored the possibility that firms may choose a growth strategy when experiencing declining performance. Chowdhury and Lang (1996) considered entrepreneurial moves, which typically involve growth strategies, as an alternative to retrenchment for small manufacturing firms. Corporate restructuring is another turnaround strategy which often involves refocusing or eliminating non-core businesses. (Beixin et al 2008). However, much of the empirical research for large firms has focused on diversification strategy (Ramanujan, 1989, Rasheed 2005).

Arogyaswamy and Yasai-Ardekani (1997) investigated the role that cutbacks, efficiency improvements and investment in technology play in the turnaround process as these actions improve profitability in the short run and allow the company to release resources that may be used elsewhere. They can also play an important political role in winning back stakeholder support and help raise external resources to fund other strategies (Smith Malchholm 2005). Having a competitive advantage through the use of innovative technology enables a company to gain market share quickly, and with new product exclusivity protected by patents, massive research and development costs can be recovered (Kow,2004)

## Methodology

The sampling methodology used was stratified random sampling. A sample size of 66 Indian companies who have successfully turnaround was studied, out of which 22 were Public sectors companies and 44 were Private sector companies. The data was collected from published case studies during the period of 2001-2009 of all the companies that have turnaround and further discussion with the company executives. The constructs in the areas of study were deduced from the cases.

The study used different measures of association for analysis. Association refers to a wide variety of coefficients which measure strength of relationship, defined in various ways. In common usage "association" refers to measures of strength of relationship, in this case it is between Public and Private sector Organizations. The data was collected from the Public and Private sector organization regarding the causes of sickness both internal and external and successful turnaround strategies adopted which was categorized into the various functional areas such as Marketing, Finance, Human resources, Production/operation and General. A questionnaire containing all the constructs which were derived from the published cases were grouped under various heads. The presence or absence of a particular reason for sickness as well as the strategies for turnaround was identified in each company. The data collected for the present study was dichotomous in nature.

In the case of dichotomies, construction of 2×2 contingency table is a common method of analyzing the data. Under these circumstances, Chi Square ( $\chi^2$ ) gives a easy measure of association between two categories. The study mainly employs Chi Square ( $\chi^2$ ), Yule's Q, and Phi ( $\phi$ ) for measuring the

association. The study also adopted Cumulative frequency technique to deduce the prominent causes of failure and strategies of turnaround of Private and Public sectors individually.

## Results

The result attempts to identify association between Public and the Private sectors based on the internal and external causes of sickness and turnaround strategies. The hypotheses tested were:

$H_{01}$  : There is no association between the private and public companies with regard to internal causes of sickness.

$H_{02}$  : There is no association between the private and public companies with regard to external causes of sickness.

$H_3$  : There is no association between the private and public companies with regard to successful turnaround marketing strategies.

$H_4$  : There is no association between the private and public companies with regard to successful turnaround Human resource strategies.

$H_5$  : There is no association between the private and public companies with regard to successful turnaround Financial strategies.

$H_6$  : There is no association between the private and public companies with regard to successful turnaround Production/operation strategies.

$H_7$  : There is no association between the private and public companies with regard to successful turnaround Production/operation.

## Causes of Sickness

<i>Internal cause</i>	<i>Yule's Q</i>	<i>Chi- Square</i>	<i>phi</i>
<i>Ambitious expansion</i>	-0.30	0.80	0.14
<i>High cost of debt due to escalation of projects/funds</i>	-0.46	2.45	0.22
<i>Slow initial growth</i>	-1.00	0.06	0.12
<i>High debt equity ratio/high reliance on debt capital</i>	0.02	0.03	0.01
<i>Poor marketing strategy</i>	-0.19	0.16	0.08
<i>Incompetent management</i>	-0.29	0.26	0.10
<i>Obsolete technology</i>	0.39	1.31	0.18
<i>High operating cost</i>	-0.30	0.12	0.09
<i>High NPAs</i>	0.24	0.03	0.07
<i>Poor capital</i>	0.54	0.72	0.16
<i>Low operating margins</i>	-0.45	0.18	0.11
<i>Inefficient workers/employees</i>	0.24	0.03	0.07
<i>Large investment in new product line</i>	0.35	0.06	0.06
<i>Non co-operation from the union-</i>	0.35	0.06	0.06
<i>Huge bad debt</i>	0.12	0.01	0.04
<i>Lack of understanding customer demand</i>	-0.37	0.33	0.11
<i>Inadequate R&amp;D</i>	0.28	0.17	0.10
<i>Low quality production</i>	-0.21	0.01	0.06
<i>Huge borrowing</i>	-0.53	1.35	0.18
<i>Low capacity utilization</i>	0.20	0.13	0.08
<i>Low quality products</i>	-1.00	0.37	0.15
<i>Low turnover</i>	-0.34	0.02	0.08
<i>Drop in exports</i>	-0.20	0.04	0.04
<i>Fall in share prices</i>	-1.00	0.37	0.15
<i>Delay in projects</i>	-0.11	0.03	0.03
<i>Inability to meet market demand/tap foreign markets</i>	0.12	0.01	0.04
<i>Product design/product quality</i>	0.35	0.06	0.06
<i>Heavily over staffed</i>	-0.11	0.03	0.03
<i>Huge stock of inventory</i>	0.01	0.18	0.00
<i>Low employee morale</i>	0.17	0.02	0.04
<i>High employee cost</i>	-0.30	0.12	0.09
<i>High interest</i>	-0.21	0.01	0.06

Table 1 - Internal causes of sickness

The results show that there exists strong association between category of the firm and the prevalence of the causes of the sickness in many cases. The significance level varies significantly among different measures of association. According to estimated Yule's Q only in 3 cases the causes of sickness is equally prevalent in both types (private and public) firms. On contrary, none of the Chi Square estimates are significant at 5% level and it implies that the incidence of causes of sickness is not symmetrical on private and public companies. However, the values of the coefficients are mostly following the similar progression in all the three coefficients (Q, Chi Square and Phi). As result we conclude that most of the causes of sickness are predominant in private firms. Since, Yule's Q is

considerable at 5% level of significance in the causes of slow initial growth , low quality products and fall in share prices. Hence, H1 is rejected in the above three causes and they are adopted by both public and private sector companies.

<i>External Causes</i>	<i>Yule's Q</i>	<i>Chi- Square</i>	<i>phi</i>
<i>High input cost</i>	0.51	2.58	0.23
<i>Dumping from overseas market</i>	-0.77	3.32	0.26
<i>High global competition</i>	-0.81	4.57	0.30
<i>High interest cost</i>	-1.00	4.78	0.31
<i>High input cost/fluctuating/spiralling</i>	0.64	4.52	0.30
<i>Slow down in market/recession/unforeseen circumstances</i>	0.37	0.97	0.16
<i>Climatic effects</i>	-1.00	4.78	0.31
<i>Regulations by the Government</i>	0.42	1.12	0.17
<i>Unstable/downfall of the sector</i>	-0.16	0.01	0.05
<i>Flagging market(market conditions)-</i>	-0.53	0.46	0.13
<i>Changes in the needs and demands of the customer</i>	-1.00	0.06	0.12
<i>Foreign exchange fluctuation</i>	-1.00	0.06	0.12
<i>Weakening rupee</i>	-1.00	0.80	0.18
<i>Stagnant price of the product</i>	0.01	0.37	0.00
<i>Lack of Government support</i>	0.89	7.41	0.38
<i>Non-availability of material needed for production</i>	1.00	3.63	0.31
<i>Liberalisation, Privatisation &amp; globalisation</i>	1.00	3.63	0.31

*Table-2 External Causes of Sickness*

According to estimated Yule's Q in 7 cases the external causes of sickness is equally prevalent in both types (private and public) firms. While in Chi Square is in 5 external causes. Yule's Q and Chi square is considerable at 5% level of significance in the external causes of sickness such as High global competition , High interest cost , high input cost/fluctuating/spiraling , Climatic effects , changes in the needs and demands of the customer , Foreign exchange fluctuation , Weakening rupee , Lack of Government support , Non-availability of material needed for production and effects of Liberalization, Privatization & globalization . Hence, H2 is rejected in the above external causes are adopted by both public and private companies.

**Turnaround strategies adopted**

<i>Marketing strategies</i>	<i>Yule's Q</i>	<i>Chi- Square</i>	<i>Phi</i>
<i>Innovative marketing strategies(product acquisition, aggressive marketing)</i>	0.66	7.02	0.36
<i>Reassessment(rationalization) of product mix</i>	-0.91	11.98	0.46
<i>Product repositioning</i>	-0.60	2.29	0.22
<i>Customisation (customer driven process)</i>	-0.21	0.01	0.06
<i>Focus on core business</i>	-0.34	0.02	0.08
<i>Better forecasting of demand</i>	0.75	1.70	0.23
<i>Focus on promotional activities</i>	-0.53	0.46	0.13
<i>Product extension</i>	-1.00	3.51	0.28
<i>Emphasis on quality</i>	-0.34	0.02	0.08
<i>Forward integration</i>	-1.00	2.34	0.24
<i>Strategic pricing(aggressive</i>	-1.00	2.34	0.24
<i>Enhanced customer service(innovative services, satisfaction measurement, service quality</i>	0.28	0.17	0.10
<i>Identifying newer markets</i>	-0.39	1.26	0.17
<i>Introduction of new products</i>	-0.53	0.46	0.13
<i>Deleting unprofitable product lines</i>	0.35	0.06	0.06
<i>Increased distribution</i>	-0.34	0.49	0.12
<i>Aggressive policy on exports</i>	-1.00	6.15	0.34
<i>Customer relationship Management</i>	0.37	0.04	0.09

*Table 3 -Marketing Strategies*

Yule's Q and Chi square is considerable at 5% level of significance in Innovative marketing strategies, Product extension, (product acquisition, aggressive marketing), Reassessment(rationalization) of product mix , Forward integration , Strategic pricing, Aggressive policy on exports. Hence, H3 is rejected in the above successful marketing turnaround strategies are taken up by both public and private companies.

<i>Financial strategies</i>	<i>Yule's Q</i>	<i>Chi- Square</i>	<i>Phi</i>
<i>Financial restructuring(debt restructuring)</i>	<i>0.68</i>	<i>7.83</i>	<i>0.37</i>
<i>Selling(hiving off) non core business</i>	<i>-0.74</i>	<i>7.23</i>	<i>0.36</i>
<i>Control of working capital(cash management)</i>	<i>-0.68</i>	<i>1.70</i>	<i>0.20</i>
<i>Infusion of funds by management/revenue raising</i>	<i>-0.06</i>	<i>0.02</i>	<i>0.02</i>
<i>Investment in capital equipment</i>	<i>-1.00</i>	<i>1.79</i>	<i>0.22</i>
<i>Funding of acquisition</i>	<i>-1.00</i>	<i>0.06</i>	<i>0.12</i>
<i>Cost cutting/cost reduction</i>	<i>0.69</i>	<i>8.10</i>	<i>0.38</i>
<i>Increase in budget</i>	<i>-1.00</i>	<i>8.41</i>	<i>0.39</i>
<i>Reduction in inventory cost(inventory management)</i>	<i>0.39</i>	<i>0.49</i>	<i>0.13</i>
<i>Reduction in debtors</i>	<i>-1.00</i>	<i>0.37</i>	<i>0.15</i>
<i>Reduction in cost of funds</i>	<i>-0.45</i>	<i>0.18</i>	<i>0.11</i>
<i>Asset reduction</i>	<i>0.42</i>	<i>1.12</i>	<i>0.17</i>
<i>Better utilization of assets</i>	<i>-0.64</i>	<i>1.23</i>	<i>0.18</i>
<i>Elimination of NPA</i>	<i>0.73</i>	<i>3.51</i>	<i>0.28</i>
<i>Enhance Shareholders value</i>	<i>0.24</i>	<i>0.03</i>	<i>0.07</i>

Table-4 Financial Strategies

Yule's Q and Chi square is considerable at 5% level of significance in Financial restructuring(debt restructuring ), selling(hiving off) non core business , Investment in capital equipment, Funding of acquisition , cost cutting/cost reduction , Increase in budget and Reduction in debtors. H4 is rejected in the above successful financial turnaround strategies are seen in both public and private organizations.

Yule's Q and Chi square is considerable at 5% level of significance in Increased efficiency of staff , Mapping organizational competencies, Holistic approach to HR , Rewarding talent in performance Hence, H5 is rejected in the above successful Human Resource turnaround strategies which are followed by both public and private organizations.

<i>Human resource strategies</i>	<i>Yule's Q</i>	<i>Chi- Square</i>	<i>Phi</i>
<i>Huge retrenchment(rationalization of workforce)</i>	<i>0.30</i>	<i>0.58</i>	<i>0.13</i>
<i>Flattened organization structure</i>	<i>-0.74</i>	<i>2.74</i>	<i>0.24</i>
<i>Staff relocation</i>	<i>0.35</i>	<i>0.06</i>	<i>0.06</i>
<i>Change in top management(efficient top management)</i>	<i>0.28</i>	<i>0.17</i>	<i>0.10</i>
<i>Increased efficiency of staff</i>	<i>-1.00</i>	<i>3.51</i>	<i>0.28</i>
<i>Linking performance with remuneration(bring in discipline and performance management)</i>	<i>-0.45</i>	<i>0.18</i>	<i>0.11</i>
<i>Focus on training and development/innovative training program</i>	<i>-0.23</i>	<i>0.09</i>	<i>0.08</i>
<i>Motivating employees(providing people with complete responsibility)</i>	<i>0.40</i>	<i>0.79</i>	<i>0.15</i>
<i>Reduction in the cost of staff</i>	<i>-0.71</i>	<i>2.20</i>	<i>0.22</i>
<i>Mapping organizational competencies</i>	<i>-1.00</i>	<i>0.14</i>	<i>0.09</i>
<i>Holistic approach to HR</i>	<i>-1.00</i>	<i>0.37</i>	<i>0.15</i>
<i>Increased efficiency of management</i>	<i>0.01</i>	<i>0.18</i>	<i>0.00</i>
<i>Employee involvement</i>	<i>0.42</i>	<i>1.12</i>	<i>0.17</i>
<i>Rewarding talent in performance</i>	<i>-1.00</i>	<i>2.34</i>	<i>0.24</i>
<i>Open door policy</i>	<i>0.35</i>	<i>0.06</i>	<i>0.06</i>

Table-5 Human Resource Strategies

<i>Production/operation strategy</i>	<i>Yule's Q</i>	<i>Chi- Square</i>	<i>Phi</i>
<i>Increased capacity utilization (improved plant efficiency)</i>	<i>0.49</i>	<i>2.78</i>	<i>0.24</i>
<i>Reduction of input procurement cost</i>	<i>-0.67</i>	<i>3.40</i>	<i>0.26</i>
<i>Reduction in operation cost/operational efficiency</i>	<i>0.18</i>	<i>0.02</i>	<i>0.06</i>
<i>Identifying SBU</i>	<i>-0.37</i>	<i>0.33</i>	<i>0.11</i>
<i>Technical collaboration/R&amp;D with international excellence</i>	<i>0.60</i>	<i>5.00</i>	<i>0.31</i>
<i>Addition of machinery to enhance products</i>	<i>-0.59</i>	<i>0.82</i>	<i>0.16</i>
<i>Improved quality in production</i>	<i>0.01</i>	<i>0.12</i>	<i>0.00</i>
<i>Reduction in raw material input cost/efficient sourcing of Raw material</i>	<i>-0.06</i>	<i>0.02</i>	<i>0.02</i>
<i>Technology up-gradation</i>	<i>0.14</i>	<i>0.02</i>	<i>0.06</i>
<i>Outsourcing</i>	<i>-1.00</i>	<i>3.51</i>	<i>0.28</i>
<i>Improvement in process</i>	<i>0.65</i>	<i>4.11</i>	<i>0.29</i>
<i>Infrastructure development</i>	<i>0.35</i>	<i>0.06</i>	<i>0.06</i>
<i>Better R&amp;D</i>	<i>1.00</i>	<i>15.28</i>	<i>0.53</i>
<i>Modernisation and ERP</i>	<i>1.00</i>	<i>20.60</i>	<i>0.60</i>

Table-6 Production/Operation Strategies

Yule's Q and Chi square is considerable at 5% level of significance in Technical collaboration/R&D with international excellence , Outsourcing , Improvement in process , Better R&D , Modernization



and ERP . Hence, H6 is rejected in the above successful turnaround strategies and they are adopted by both public and private organizations.

<i>Other strategy</i>	<i>Yule's Q</i>	<i>Chi- Square</i>	<i>Phi</i>
<i>Addressing environmental issues of major concern(energy, water treatment, organic growth, social change )</i>	0.01	0.37	0.00
<i>Corporate restructuring</i>	-1.00	2.34	0.24
<i>Business segmentation</i>	-0.53	1.35	0.18
<i>Strong corporate governance</i>	0.01	0.37	0.00
<i>Broader value systems</i>	0.00	0.00	0.00
<i>CSR</i>	0.01	0.18	0.00
<i>Growth Strategy</i>	0.86	5.31	0.34

Table-7 General Strategies

Yule's Q and Chi square is considerable at 5% level of significance in Corporate restructuring and Growth Strategy . Hence, H7 is rejected in both these strategies and are general turnaround strategies adopted by both public and private organizations.

#### **Prominent causes for sickness and turnaround strategies of Public and Private Companies.**

Out of the various causes of sickness and turnaround strategies the study also derives which are prominent in public and private organizations separately

<i>Causes-internal-Public</i>	<i>Cumulative frequency</i>	<i>Causes-internal-Private</i>	<i>Cumulative frequency</i>
<i>High debt equity ratio/ high reliance on debt capital</i>	10.9	<i>High cost of debt due to escalation of projects/funds</i>	11.36
<i>Obsolete technology</i>	19.6	<i>Ambitious expansion</i>	20.91
<i>Ambitious expansion</i>	27.2	<i>High debt equity ratio/ high reliance on debt capital</i>	30.00
<i>High cost of debt due to escalation of projects/funds</i>	34.8	<i>Poor marketing strategy</i>	37.27
<i>Poor marketing strategy</i>	41.3	<i>Huge borrowing</i>	42.27
<i>Low capacity utilization</i>	47.8	<i>Incompetent management</i>	46.82
<i>Inadequate R&amp;D</i>	52.2	<i>Obsolete technology</i>	50.91

Table. 8 Predominant Internal cause of sickness public and private organizations

From the above Tables 8, it is evident that, High debt equity ratio/ high reliance on debt capital, obsolete technology, ambitious expansion are major internal causes of sickness of public sector organizations. While, high cost of debt due to escalation of projects/funds, Ambitious expansion, High debt equity ratio/ high reliance on debt capital are the prominent internal causes of sickness in private sector organizations.

<i>Causes-External-public</i>	<i>Cumulative frequency</i>	<i>Causes-External-Private</i>	<i>Cumulative frequency</i>
<i>High interest cost</i>	16	<i>High global competition</i>	14.14141
<i>High input cost/fluctuating/spiraling</i>	32	<i>Dumping from overseas market</i>	26.26263
<i>Slow down in market</i>	46	<i>High interest cost</i>	37.37374
<i>Regulations by the government</i>	58	<i>Climatic effects</i>	48.48485
		<i>Slow down in market</i>	56.56566

Table.9 Predominant External cause of sickness public and private organizations

It is clear from Table 9 , that high input cost, high fluctuating cost, slow down in markets due to recession, unforeseen circumstances are a key external causes of sickness among public sector organizations. While, high global competition, dumping from overseas market, high interest costs are the main causes of sickness in private sector organization.

<i>Strategies-Marketing-Public</i>	<i>Cumulative frequency</i>	<i>Strategies-Marketing-Private</i>	<i>Cumulative frequency</i>
<i>Innovative Marketing strategies</i>	34.1	<i>Reassessment(rationalization) of product mix</i>	15.54054
<i>Identifying newer markets</i>	46.3	<i>Identifying newer markets</i>	27.7027
<i>Enhanced customer service</i>	56.1	<i>Product repositioning</i>	36.48649
		<i>Aggressive policy on exports</i>	45.27027
		<i>Innovative Marketing strategies</i>	53.37838

Table.10 Predominant turnaround marketing strategies in public and private organizations

It is evident from Table 10 that Innovative Marketing strategies is a key successful turnaround marketing strategies found in public and private organization. Rationalization of product mix is the major successful turnaround marketing strategy in the private sector organizations.

<i>Strategies-Financial-Public</i>	<i>Cumulative frequency</i>	<i>Strategies-Financial-Private</i>	<i>Cumulative frequency</i>
<i>Financial /debt restructuring</i>	26.31579	<i>Selling(hiving off) non core business</i>	19.00826
<i>Cost cutting/cost reduction</i>	50.87719	<i>Increase in budget</i>	32.2314
		<i>Financial /debt restructuring</i>	42.97521
		<i>Cost cutting/cost reduction</i>	52.06612

Table.11 Predominant turnaround financial strategies in public and private organizations

Table 11 shows that debt restructuring is a key strategy found both in public as well as private sector organizations though predominant in public organizations. Selling off non-core business is a major successful turnaround financial strategy in the private sector organizations.

<i>Strategies-HR-Public</i>	<i>Cumulative frequency</i>	<i>Strategies-HR-Private</i>	<i>Cumulative frequency</i>
<i>Huge retrenchment</i>	21.9	<i>Flattened organization structure</i>	12.7907
<i>Employee involvement</i>	40.6	<i>Reduction in the cost of staff</i>	24.4186
<i>Motivating employees</i>	56.3	<i>Huge retrenchment</i>	34.88372
		<i>Increased efficiency of staff</i>	45.34884
		<i>Focus on training and development/innovative training program</i>	55.81395

Table.12 Predominant turnaround Human Resources strategies in public and private organizations

It is evident from Table 12 that Huge retrenchment(rationalization of work force) is a key successful turnaround Human Resource strategies found in Public sector organization. However, this strategy is also found in the private sector organizations. While flattened organization structure is a major successful turnaround Human Resource strategy in the private sector organizations

<i>Strategies-Production-Public</i>	<i>Cumulative frequency</i>	<i>Strategies-Production-Private</i>	<i>Cumulative frequency</i>
<i>Technical collaboration/ R&amp;D with international excellence</i>	15.7	<i>Reduction of input procurement cost</i>	15.95745
<i>Increased capacity utilization(improved plant efficiency</i>	30.0	<i>Increased capacity utilization(improved plant efficiency</i>	26.59574
<i>Modernization, ERP</i>	44.3	<i>Technology up-gradation</i>	37.23404
<i>Better R&amp;D</i>	55.7	<i>Technical collaboration/R&amp;D with international excellence</i>	46.80851
		<i>Reduction in raw material input cost/efficient sourcing of Raw material</i>	56.38298

Table.13 Predominant turnaround production/operation strategies in public and private organizations

It is seen from Table 13 that Technical collaboration and R&D with international excellence is a key successful turnaround production/operation strategies found in Public sector organization. However, this strategy is also found in the private sector organizations. While Reduction of input procurement cost is a major successful turnaround Human Resource strategy in the private sector organizations

It is seen that increased capacity utilization(improved plant efficiency is a major successful turnaround production/operation strategies prevalent both

<i>Strategies-others-Public</i>	<i>Cumulative frequency</i>	<i>Strategies-others-Private</i>	<i>Cumulative frequency</i>
<i>Growth Strategy</i>	45.5	<i>Business segmentation</i>	40.74074
<i>Business Segmentation</i>	63.6	<i>Corporate restructuring</i>	66.66667

*Table.14 Predominant turnaround general strategies in public and private organizations*

It is evident from Table 14 that growth strategy is a key successful turnaround other strategies found in Public sector organization. While business segmentation is a major successful turnaround others strategy in the private sector organizations

## **Managerial Implication and Conclusion**

The study identified an extensive list of causes for sickness of public and private organizations and successful turnaround strategies adopted by them. From the findings it is imperative that both the sectors need to focus on stringent financial control while special emphasis be given to quality of the products as a proactive strategy, private organizations specifically need to be careful and go in for an extensive market analysis before going in for an ambitious expansions. Public organizations should be quick in implementing state of the art technology as obsolete technology is more prominent as an internal cause of sickness. To be proactive in combating the external environment both the public and the private organizations must anticipate global competition, constant changes in customer demand, provision should be given for high interest rates and high input costs. Public organizations should foresee the high interest and input costs and slow down in market and work accordingly. Private organizations have to be cautious of international forces that are predominantly.

Upon analyzing the successful turnaround strategies, it is evident that in the companies need to emphasis on innovation in marketing whether it is in terms of product extensions or rationalizing of product mix. Public companies should give higher impetus to innovative marketing strategies and customer orientation hence this could be an ideal focus, while private organizations should work on reassessing the product mix. Both of them will constantly work on identifying newer markets as a strategy to sustain growth.

Financial restructuring coupled with cost cutting becomes essential to revive both public and private organizations, they also need to focus on the core competency and outsource non- core businesses. While debt restructuring is essential for both the sectors as a turnaround strategy, private companies need to put effort on hiving off non-core businesses as an essential move.

While rationalizing workforce is a major human resource turnaround strategy mostly done in various forms of retrenchment, the public and the private organizations ought to develop means of increasing efficiency of staff, mapping organizational competencies, identifying holistic approach to

human resource and effectively rewarding talent in performance. Public organizations need to look into motivating employees and in private sectors flattened structures have led to turnaround.

As far as production and operation strategies are concerned there is an increased need of technical collaboration of international excellence especially by public organizations, process improvement and modernization is a key to turnaround in both public and private companies. Private companies have to reduce input procurement cost. This difference could be due to the advanced technology adoption by the private companies as compared to public organizations.

Other important turnaround strategies are corporate restructuring and growth Strategy for both the sectors. Clear business segmentation is also a result oriented turnaround strategy.

In conclusion the study finds certain associations in causes of sickness and turnaround strategies between public and private organizations, but they need to be treated with in-depth understanding as there are a few predominant causes which are specific for the sectors and also the turnaround strategies need to differ depending on the sector and individual company.

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## CONSUMER-BASED BRAND EQUITY: A CROSS-CULTURAL PERSPECTIVE

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### Abstract

Even though the concept of brand equity has been debated for many years, consensus has not as yet been reached as to what brand equity means, what it comprises and how it is measured. Given, however, the considerable impact of culture on consumer behaviour it may be argued that brand equity is in fact a context-specific construct. To this end, this paper investigates the conceptualisation of brand equity from a cross-cultural perspective. Consumer-based brand equity is investigated with the use of a standardised questionnaire which is based on Aaker's (1991) and Lassar et al.'s (1995) model. The scale was administered in four distinct cultures, namely in the USA, China, Cyprus and Moldova, with a total sample of 184 respondents. The findings suggest a seven-dimensional brand equity construct. Inherent differences exist, however, between the respondents of the different cultures as to the strength and composition of each dimension. Further, the paper establishes the positive effect of brand equity on the respondents' purchase decisions. The main limitation pertains to the sample: a convenience sample was employed and the number of respondents per culture is small. Moreover, only one product category was examined. The paper highlights, however, the need to blend both quantitative and qualitative methods in improving the consumer-based brand equity construct. The paper can contribute to the existing body of knowledge by addressing the need to further investigate the brand equity's dimensionality, especially in view of different contexts.

**Keywords:** Brand Equity, Brand Loyalty, Culture

### Introduction

The importance of brand equity is well-documented in the literature, where a number of benefits accrue from high brand equity. These include the enhanced consumer confidence towards the brand and as such higher consumer preference (Cobb-Walgren et al., 1995; Pappu et al., 2005). In turn, these lead to a better sheltering of the company against competitors efforts and ultimately improve the company's performance (Aaker, 1991).

Nevertheless, little consensus exists as to what brand equity means, what it comprises or how it is measured. To this end, there have been various calls for better understanding and refinement of the construct (Washburn and Plank, 2002; Pappu et al., 2005) and especially of consumer-based brand equity which pertains to investigating the customer's perspective. In addition, in light of the

significant impact of culture on consumer behaviour it may be argued that brand equity conceptualisations across cultures may be different.

Therefore, this study investigates how brand equity is conceptualised by consumers of different cultures and reports the effect of brand equity on consumer purchase decisions. To this end, the paper reviews the brand equity literature with special emphasis on consumer-based brand equity, outlines the employed methodology and discusses the research findings.

## **Brand Equity**

The concept of brand equity has attracted, over the years, the interest of a magnitude of academics and practitioners alike; and in the recent years it has been the subject of much debate. Nevertheless, despite the plethora of proposed definitions, there is to date little consensus as to what exactly brand equity is (Pappu et al., 2005). These efforts, however, have resulted into two broad categories of brand equity definitions:

1. Several researchers have conceptualized brand equity from a consumer or marketing perspective, defining it as the value of a brand to the consumer (see for example, Aaker, 1991; Kamakura and Russell, 1993 and Keller, 1993). To this end, Keller (1993) coined the term customer-based brand equity which he defined as “the differential effect of brand knowledge on consumer response to the marketing of a brand” (p.2). Nevertheless, the most comprehensive definition has been offered by Aaker (1991): “a set of brand assets and liabilities linked to a brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm and/or to that firm’s customers” (p.15).
2. Other researchers define brand equity from a financial-perspective which views brand equity in terms of the incremental discounted future cash flows from the revenue a branded product, as opposed to the revenue of the same unbranded product (Simon and Sullivan, 1993). That is, the financial perspective stresses the value of the brand to the firm (Pappu et al., 2005).

The present research focused on customer-based brand equity since customer-based brand equity is a prerequisite for financial-based equity (Lassar et al., 1995). In fact, Cobb-Walgren et al. (1995) effectively address this point when they argue that “there is value to the investor, the manufacturer and the retailer only if there is value for the consumer (p. 26). This is clearly in line with the marketing concept and as such, we adopt Keller’s (1993) thesis that “though the eventual goal of any marketing program is to increase sales, it is first necessary to establish knowledge structures from the brand so that consumers respond favourably to marketing activities for the brand (p. 8), i.e. it is only via thorough understanding and delight of the customer that organizational success can be achieved.

## **Measuring customer-based brand equity**

Even though customer-based brand equity has been thoroughly conceptualised, such conceptualisations are quite distinct. For instance, the most often used customer-based brand equity construct has been offered by Aaker (1991) who suggested five brand equity dimensions, namely:

Brand Awareness, Brand Associations, Perceived Quality, Brand Loyalty and Other proprietary assets – these are presented in Figure 1.

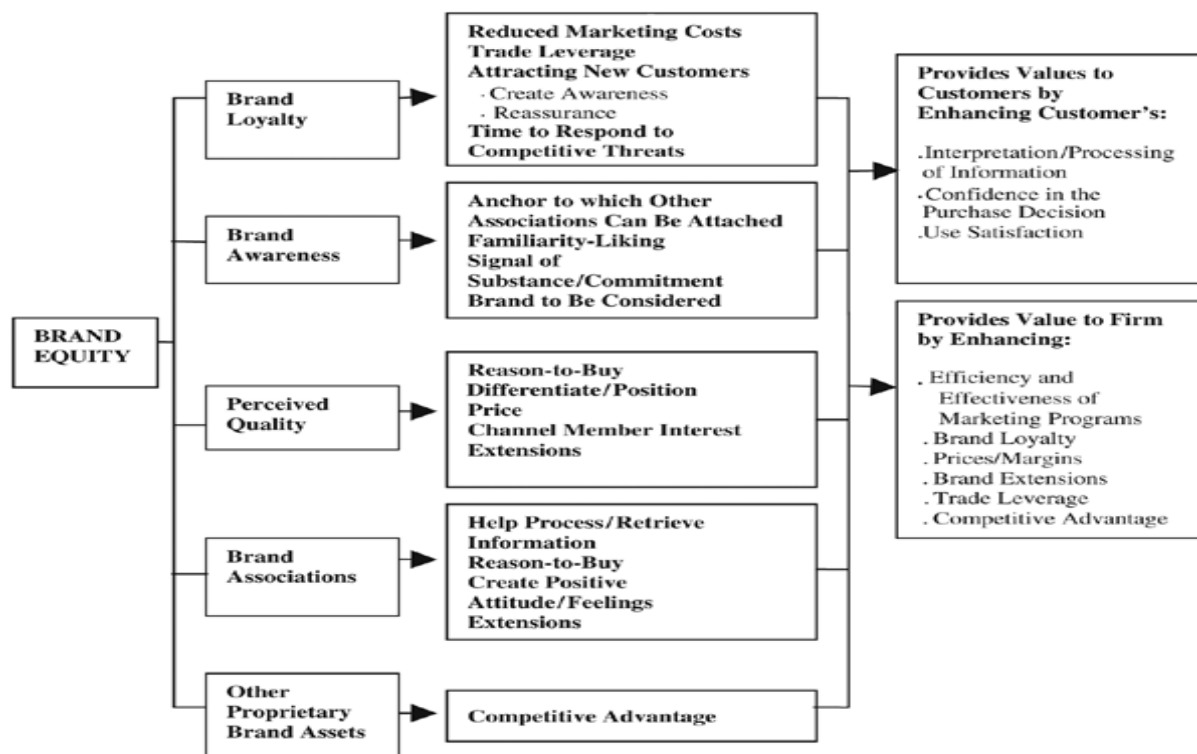


Figure 1: Aaker's (1991) Brand Equity Model

**Brand awareness** is the ability of a potential buyer to recognize or recall that a brand is a member of a certain product category and as such, represents the strength of the brand's presence in the consumer's mind (Aaker, 1991). Thus, Aaker suggests that brand awareness assumes an important role in the consumer decision-making process since, to a great extent, people tend to buy brands that they are familiar with and have confidence in.

**Brand Association** pertains to values which are based on the association of the brand with certain product attributes or personalities (e.g. celebrities) which provides confidence and credibility and, in turn, helps to establish the trust of the customer. As a result, it can ultimately shelter the company against competitors (Aaker, 1991).

A further, essential characteristic for every brand is perceived quality. This influences the consumer's decision-making process by providing a fundamental reason to purchase. In addition, according to Aaker (1991) perceived quality increases the opportunity of charging a premium price and can, therefore, be used as a helping tool when the company intends to utilize a pricing strategy with premium price. Finally, the perceived quality of a brand has a direct impact on brand loyalty.

**Brand loyalty** represents an encouraging approach towards a brand resulting in preference and regular purchase of the brand over time (Tuominen, 1999). That is, initially customers will purchase a

brand for trial, after being satisfied, customers will continue to patronize the specific brand (Aaker, 1991). In return, the organization will benefit from increased purchases, reduced costs, positive word-of-mouth and even premium prices, ultimately boosting its profitability (Reichheld and Sasser, 1990). Therefore, “the brand loyalty of the customer base is often the core of brand equity. If customers are indifferent to the brand and, in fact buy with respect to features, price and convenience with little concern to the brand name there is likely little equity. If, on the other hand, they continue to purchase the brand even in the face of competitors with superior features, price, and convenience, substantial value exists in the brand and perhaps in its symbol and slogan” (Aaker, 1991).

Finally, Aaker (1991) discusses propriety brand assets which may exist in the form of trademarks and patents and provide protection to companies.

On the whole, it can be argued that the key sources of brand equity suggested by Aaker (1991) pertain to both perceptual and behavioural dimensions.

Keller (1993) has provided a distinct brand equity concept, which in line with Aaker’s model, is based on consumers’ memory-based brand associations. In fact, Keller (1993) introduced the first conceptual model of customer-based brand equity which suggests that a brand can have positive/negative customer-based brand equity when consumers react more/less favourably to an element of the marketing mix for the particular brand, than they do to the same element of the marketing mix for other brands. Thus, customer-based brand equity occurs when consumers are familiar with the brand and hold some “favourable, strong and unique” brand associations in memory. According to Keller (1993) brand equity comprises two dimensions, i.e. brand knowledge and brand image.

Following these conceptualisations, a number of researchers have sought to measure consumer-based brand equity, but nowadays, there is still lack of consensus for a universally accepted measurement instrument (Washburn and Plank, 2002; Pappu et al., 2005). Various academics provided a brand equity measurement tool (as shown in Table 1), with the majority of such efforts being based on Aaker’s (1991) five components. Nevertheless, there are a number of calls (e.g. Washburn and Plank, 2002; Pappu et al., 2005) stressing the need to refine the dimensionality of consumer-based brand equity. To this effect, it can be argued that consumer-based brand equity measurement approaches can only be useful if brand equity is broken into components that can be related to factors, such as favourable customer perceptions (Sinha et al., 2000 in Pappu et al., 2005). Thus, to overcome the problem some researchers divided brand equity into attribute-based and nonattribute-based components (see for example, Park and Srinivasan, 1994), while many researchers proposed a brand equity measurement method, by subdividing brand equity into different dimensions (see for example, Cobb-Walgren et al., 1995; Yoo and Donthu, 2001; Yoo et al., 2000).

<i>Source</i>	<i>Dimensions</i>
<i>Martin and Brown (1990)</i>	<i>Perceived Quality, Perceived Value, Image, Trustworthiness and Commitment</i>

<i>Srivastava and Shocker (1991)</i>	<i>Brand Strength and Brand Value</i>
<i>Kamakura and Russell (1993)</i>	<i>Perceived Value, Brand Dominance and Intangible Value</i>
<i>Blackston (1995)</i>	<i>Brand Meaning (i.e. Brand Saliency, Brand Associations, Brand Personality) and Brand Value (the outcome of managing Brand Meaning)</i>
<i>Lassar et al. (1995)</i>	<i>Performance, Value, Social Image (i.e. includes the attributions a consumer makes and a consumer thinks that others make to the typical user of the brand), Trustworthiness (i.e. the confidence a consumer places in the firm and its communications, and as to whether the firm's actions are in the consumer's interest), and Commitment</i>
<i>Cobb-Walgren et al. (1995)</i>	<i>Brand Awareness, Brand Associations, Perceived Quality and Brand Loyalty</i>
<i>Yoo and Donthu (2001)</i>	<i>Brand Awareness, Brand Associations, Perceived Quality And Brand Loyalty</i>
<i>Yoo et al. (2000)</i>	<i>Brand Awareness/Brand Associations, Perceived Quality and Brand Loyalty</i>
<i>Netemeyer et al. (2004)</i>	<i>Perceived Quality/Perceived Value, Uniqueness, and Willingness to pay a Price Premium</i>

Table 1: Brand Equity Dimensions in Existing Literature

It can, therefore, be concluded that consumer-based brand equity generally falls into two groups: those involving consumer perceptions and attitudes (e.g. brand awareness, brand associations, and perceived quality) and those involving consumer behaviours (e.g. brand loyalty and the willingness to pay a price differential) (Cobb-Walgren et al., 1995; Yoo and Donthu, 2001). There are nevertheless, merits in combining both consumer perceptions and behaviours into a single brand equity measure: On the one hand, as Biel (1992) argues “consumer behaviour is, at root, driven by perceptions of a brand. While behavioural measures of purchase describe the existence of equity, they fail to reveal what is in the hearts and minds of consumers that is actually driving equity”. On the other hand, it is well documented in the literature, that attitudes alone are generally a poor predictor of behaviour.

Finally, it is underlined that Aaker (1991) suggested that a brand's assets and liabilities which contribute to its equity may be different from one context to another. In fact, one could argue that brand equity may be context-specific, depending on the type of product and the culture under investigation.

In particular, various classifications of products have been offered in the literature, such as convenience, shopping and specialty goods or high and low involvement products (Kotler and Armstrong, 2005), while the profound influence of culture on all aspects of human behaviour has been rigorously discussed (see for example, Cateora and Graham, 2002; Keegan and Schlegelmilch, 2001; Usunier and Lee, 2005). As a result, researchers have used various products and brands in their studies such as athletic shoes, watches, televisions and cars. Nevertheless, cross-cultural research, pertaining to the brand equity construct, has not been as thorough, with possible exceptions the notable contributions of Motameni and Shahrokhi (1998), Yoo and Donthu (2002) and Yoo (2008).

Given, however, that culture is so entwined with all facets of human existence and has a significance impact on consumer behaviour [1], (Usunier and Lee, 2005) it becomes imperative to understand the concept of brand equity as perceived by consumers of different cultures.

## Objectives

Consequently, in light of the above, the objectives of the research were:

1. to examine how brand equity is conceptualised by consumers in different cultures
2. to investigate the effect of brand equity on the purchase decision of consumers from different cultures

To this end, a consumer-based measurement scale was developed which measured both consumer perceptions and attitudes as well as consumer behaviours for cars. Cars were selected since they fulfil different needs and preferences across countries and are a high involvement purchase; as such, “when a consumer decides to buy a car, he seeks information about the available brands and compares his collected information about each brand and finally makes up his mind” (Kotler and Armstrong, 2005, p. 276).

In view of the lack of consensus for a generic measurement tool of consumer-based brand equity, the present research employs a scale which is essentially an amalgam of Aaker’s (1991) and Lassar et al.’s (1995) model. In particular, the scale included 21 closed-ended questions among which, one relates to information sources, four to Social Image, one to Trustworthiness of the organisation, six to Product Performance and Perceived Quality, three to Brand Loyalty and two to importance of the brand.

More specifically, in line with Lassar et al.’s model (1995) performance refers to the totality of the physical job, i.e. it is defined as “a consumer’s judgment about a brand’s fault-free and long-lasting physical operation and flawlessness in the product’s physical construction. ... beliefs about quality (i.e. performance) have gone into that brand name’s value or equity, as our model explicitly states” (p.14). Further, the Social Image dimension, as proposed by Lassar et al. (1995) is incorporated which addresses whether the brand enhances the respondent’s self-esteem, matches his/her personality, positively affects his/her image and offers prestige.

A standardized scale was used in all of the four countries in which it was administered (i.e. USA, China, Moldova, and Cyprus), with minor adaptations with respect to the income category [2] and the language of administration. A 5-point Likert scale was employed for the majority of questions. To further allow for cross-cultural differences to surface, however, open-ended questions were used which allowed respondents to express their own thoughts and feelings in their own terminology, without forcing received theory on them (Gummesson, 1994). In addition, six questions were included which pertained to the respondents’ demographic characteristics, namely age, gender, marital status, occupation, income and culture.

A non-probability, convenience sample was used and with the exception of China, the questionnaire was administered via face-to-face interviews with visitors of different shopping malls – a total of 50 questionnaires for each country were completed. In China, due to access problems, the questionnaires were sent by e-mail and the total number of completed questionnaires was 34. Fieldwork was conducted in July, 2009 via a different researcher in each country. The collected data were analysed with the use of SPSS version 17.

## **Research findings**

Unlike prior studies, this research did not aim in providing a consumer-based brand equity measure. Many such measures have been offered with little consensus as to what constitutes a reliable and valid tool. Instead, the present research focused on examining whether differences exist between consumers of different cultures vis-à-vis brand equity conceptualisation and brand equity's effect on their purchase decisions. To this end, two or more sets of variables were compared, including a comparison with consumer demographic characteristics as well, to reveal potential differences emanating from different consumer profiles rather than the respondents' culture. Both differences and similarities emerged across the investigated brand equity dimensions.

### **How is brand equity conceptualised by consumers in different cultures?**

On the whole, the findings support the investigated dimensions of brand associations, trustworthiness, performance and perceived quality, social image and brand loyalty, but differences emerged in the different cultures as to the strength and composition of each dimension. In addition, two new dimensions, Brand Image and Perceived Value, emerged from the qualitative findings of the open-ended questions. In particular, in response to the open-ended question "What were the reasons for your specific choice?", across the different contexts, Perceived Quality, Design, Safety and Brand Image emerged as key assets linked to a brand. Nevertheless, the magnitude of each dimension appears to be different – these were ranked as follows:

- for the US participants Design, Perceived Quality, Safety and Brand Image,
- for the Chinese as Perceived Quality, Safety, Design and Brand Image,
- for the Cypriots mainly Design and to a lesser extent Safety, Perceived Quality and Brand Image, and
- for Moldavians mainly Perceived Quality and to a smaller extent Design, Brand Image and Safety.

Other dimensions which have been mentioned by the respondents of all the cultures pertained to comfort and the economic fuel consumption of the car. In addition, the car's luxury was discussed by all the countries except Moldova, while 'suitability for one's job' was raised only by the Moldavians.

The most obvious similarity between the respondents of the different cultures, however, is the great emphasis that they place on the price of the car. That is, in response to the aforementioned open-ended question, with the only exception of the Cypriot participants, the most often-quoted factor was

price. This might seem contrary to Aaker's (1991) and Netemeyer et al.'s (2004) assertion that ultimately brand equity may allow a pricing strategy with a premium price. Given, however, the nature of the product under consideration, i.e. cars, and the huge financial commitment which such a purchase necessitates, this should not be surprising. Even though price is a primary consideration this does not suggest that a price premium is not enjoyed by the various car manufacturers. What the findings highlight, however, is the relevance of a further concept in brand equity conceptualisations, namely Perceived Value i.e. which considers not only the perceived benefits from a particular purchase, but also the associated perceived costs so as to determine the value of the product (Lovelock and Wirtz, 2004).

	<i>Design</i>	<i>Comfort</i>	<i>Safety</i>	<i>Superior performance</i>
<i>USA</i>	Strongly agree: 50% Agree: 30%	Strongly agree: 36% Agree: 55%	Strongly agree: 50% Agree: 36%	Strongly agree: 24% Agree: 52%
<i>China</i>	Strongly agree: 45% Agree: 30%	Strongly agree: 44% Agree: 53%	Strongly agree: 65% Agree: 26%	Strongly agree: 38% Agree: 44%
<i>Cyprus</i>	Strongly agree: 48% Agree: 36%	Strongly agree: 54% Agree: 36%	Strongly agree: 56% Agree: 36%	Strongly agree: 40% Agree: 20%
<i>Moldova</i>	Strongly agree: 40% Agree: 44%	Strongly agree: 32% Agree: 56%	Strongly agree: 36% Agree: 50%	Strongly agree: 46% Agree: 30%

Table 2: Research Findings – Performance and Perceived Quality factors

The qualitative findings may be combined with the participant's responses to the fixed-alternative questions to reveal that in line with existing literature, Brand Associations are a pillar of brand equity; associating the brand with attributes such as good design, comfort, safety, good road handling, durability and reliability (i.e. Superior Performance and Perceived Quality) yields considerable value to the consumer. Indeed, "Keller pointed out that the favourability, strength, and uniqueness of brand associations are the dimensions distinguishing brand knowledge that play an important role in determining the differential response that makes up brand equity, especially in high involvement decision settings" (Cheng, 2001, p. 440). Once again, however, the results suggest that differences exist between the respondents from the different cultural contexts as illustrated in Table 2.

Moreover, the results uphold the Social Image dimension as an important component of brand equity. Its importance is validated by the overwhelming majority of the respondents, across all cultural settings and especially in the US. Indeed, as a highly individualistic culture (Hofstede, 2005), Americans are more likely to be concerned with whether their purchases make them stand out in the eyes of their peers. It should also be noted that the Americans are followed by the Cypriots. Both of these nations have a higher standard of living than the other two: this provides support for the argument that as disposable income increases, satisfying psychological needs becomes more important than satisfying functional needs (Levy and Weitz, 2004).



	<i>Enhances my self-esteem</i>	<i>Matches my lifestyle</i>	<i>Positively affects my social image</i>	<i>Offers prestige</i>
<i>USA</i>	<i>Strongly agree: 42%</i> <i>Agree: 45%</i>	<i>Strongly agree: 36%</i> <i>Agree: 48%</i>	<i>Strongly agree: 50%</i> <i>Agree: 36%</i>	<i>Strongly agree: 34%</i> <i>Agree: 40%</i>
<i>China</i>	<i>Strongly agree: 26%</i> <i>Agree: 35%</i>	<i>Strongly agree: 29%</i> <i>Agree: 38%</i>	<i>Strongly agree: 65%</i> <i>Agree: 26%</i>	<i>Strongly agree: 29%</i> <i>Agree: 41%</i>
<i>Cyprus</i>	<i>Strongly agree: 26%</i> <i>Agree: 34%</i>	<i>Strongly agree: 34%</i> <i>Agree: 30%</i>	<i>Strongly agree: 56%</i> <i>Agree: 36%</i>	<i>Strongly agree: 30%</i> <i>Agree: 36%</i>
<i>Moldova</i>	<i>Strongly agree: 20%</i> <i>Agree: 42%</i>	<i>Strongly agree: 18%</i> <i>Agree: 44%</i>	<i>Strongly agree: 36%</i> <i>Agree: 50%</i>	<i>Strongly agree: 10%</i> <i>Agree: 46%</i>

Table 3: Research Findings – The Social Image Dimension

A further dimension which was investigated pertained to the Trustworthiness of the company behind the brand. It was speculated that this factor may be highly valuable to the Cypriot and Moldavian respondents who score well above the world average in the uncertainty avoidance index. Nevertheless, the results suggest that its effect is significant in all four cultural settings (i.e. Moldavia – 86%, Cyprus – 80%, USA – 78% and China - 74%). It is recognised that these results may mask a potential country-of-origin effect (cf. Al-Sulaiti and Baker, 1998).

In addition, the results compare well with extant literature which documents Brand loyalty as an important dimension of consumer-based brand equity (see for example, Aaker, 1991; Cobb-Walgren et al., 1995; Yoo and Donthu, 2001). Initially respondents were asked what brand of car they owned in the past – the results are presented in Table 4.

<i>Culture</i>	<i>No car</i>		<i>Change</i>		<i>Same brand</i>	
<i>USA</i>	8	16%	23	46%	19	38%
<i>China</i>	22	65%	4	12%	8	23%
<i>Cyprus</i>	11	22%	16	32%	23	46%
<i>Moldova</i>	16	32%	20	40%	14	28%
<i>Total</i>	57		63		64	

Table 4: Research Findings: What car did you own in the past?

The highest percent of repeat purchases was recorded by the Cypriot respondents. Similarly in the US, participants have also shown a high degree of re-purchase behaviour. To determine whether these can be considered as signs of brand loyalty, the findings need to be compared with subsequent questions which tap the extent of positive feelings held for the particular brand, whether they would buy this brand again and whether they would recommend this brand. In fact, such a comparison reveals that overall the American respondents exhibit the highest brand loyalty, followed by the Cypriot participants who show the highest degree of positive feelings towards the brand. Interestingly, the Moldavians seem more willing than the other respondents to recommend the car brand – this includes those who have already repurchased the same brand, but also additional

respondents whose current satisfaction has turned them into advocates of the brand. The said results are presented in Table 5.

	<i>Buy this Brand again</i>	<i>Positive feelings towards the Brand</i>	<i>Recommend</i>
<i>USA</i>	<i>Strongly agree: 54%</i> <i>Agree: 30%</i>	<i>Strongly agree: 34%</i> <i>Agree: 44%</i>	<i>Strongly agree: 48%</i> <i>Agree: 32%</i>
<i>China</i>	<i>Strongly agree: 35%</i> <i>Agree: 21%</i>	<i>Strongly agree: 35%</i> <i>Agree: 50%</i>	<i>Strongly agree: 29%</i> <i>Agree: 38%</i>
<i>Cyprus</i>	<i>Strongly agree: 36%</i> <i>Agree: 38%</i>	<i>Strongly agree: 46%</i> <i>Agree: 32%</i>	<i>Strongly agree: 36%</i> <i>Agree: 46%</i>
<i>Moldova</i>	<i>Strongly agree: 32%</i> <i>Agree: 36%</i>	<i>Strongly agree: 34%</i> <i>Agree: 48%</i>	<i>Strongly agree: 40%</i> <i>Agree: 48%</i>

Table 5: Research Findings – The Brand Loyalty Dimension

### Brand equity's effect on the purchase decision of consumers from different cultures

Specifically, the results suggest that a significant number of the Chinese respondents (41%) considered only the car brand that they bought, the US respondents considered a further brand, while the participants from Moldavia and Cyprus considered three and four alternatives in their decision-making. This could suggest that the latter (Moldavians and Cypriots) are trying to reduce the perceived risk of the purchase decision [3] or alternatively, may be interpreted as a sign of brand loyalty for the former and especially the Chinese respondents. As such, this finding may be compared with subsequent questions which pertain to brand loyalty (i.e. Table 5), to reveal that in fact, the responses of the Chinese show a weak loyalty link. On the contrary, as already discussed the US and Cypriot respondents' behaviour, and purchase decision in particular, is more intertwined with strong emotional bonds which are a sign of brand loyalty. Therefore, the purchase decision of the Chinese respondents may be explained in the light of Jose et al.'s (1995) argument that customers may purchase the same product from a familiar brand as a risk-reducing strategy or simply to save time.

More conclusive evidence as to the effect of brand equity on the purchase decision of the consumers from the different cultures, however, can be drawn by considering their answers to two further questions. These questions directly asked respondents (a) whether they consider the brand to be the most important factor in their decision making and (b) the importance of buying a well-known brand of car. The answers are presented in Table 6 and underline the significant effect of the brand name on purchase behaviour. They also highlight the close relationship between brand loyalty and purchase decisions; further analysis has substantiated this especially for the American sample. With respect to the Cypriot respondents, who have also shown a high degree of brand loyalty (Table 5), the comparison results are not as strong. This may be seen to provide evidence to the argument that less direct measurement techniques are more suitable in investigating high-context cultures like the Cypriots (cf. Hall, 1977; Cateora and Graham, 2002).

	<i>It is important to buy a well-known brand of car</i>	<i>The most important factor in choosing a car is the brand</i>
<i>USA</i>	<i>Strongly agree: 38%</i> <i>Agree: 46%</i>	<i>Strongly agree: 44%</i> <i>Agree: 34%</i>
<i>China</i>	<i>Strongly agree: 32%</i> <i>Agree: 41%</i>	<i>Strongly agree: 26%</i> <i>Agree: 41%</i>
<i>Cyprus</i>	<i>Strongly agree: 28%</i> <i>Agree: 44%</i>	<i>Strongly agree: 18%</i> <i>Agree: 44%</i>
<i>Moldova</i>	<i>Strongly agree: 48%</i> <i>Agree: 36%</i>	<i>Strongly agree: 30%</i> <i>Agree: 34%</i>

Table 6: Research Findings – Importance of the brand on consumer decisions

## Conclusion

In view of both the lack of consensus, even “at the conceptual level about what brand equity comprises” (Pappu et al., 2005), and Aaker’s suggestion (1991) as to the possible contextuality of the concept, the present research adopts a cross-cultural perspective to further to investigate brand equity and examine whether it is conceptualised differently by consumers in different cultures. In addition, it investigates the effect of brand equity on the purchase decision of consumers from different cultures. The attitudes and behaviour of consumers from four different cultural settings were investigated, namely the USA, China, Cyprus and Moldova, with the use of a standardised questionnaire.

Overall, the findings support the multidimensionality of the construct (Yoo and Donthu, 2001; Pappu et al., 2005) and suggest that brand equity can be conceptualised on the basis of Aaker’s (1991), Keller’s (1993) and Lassar et al.’s (1995) model to include seven dimensions. In particular, the same dimensions are considered in determining the value of a brand across the different cultures, but both the composition and the strength of each dimension are distinct for the respondents of the four cultures. Specifically, the findings reveal that the following factors can be considered as assets or liabilities for a brand:

- Superior Performance (see for e.g. Lassar et al., 1995) and Perceived Quality (see for e.g. Aaker, 1991; Lassar et al., 1995) to include good design, comfort, safety, reliability, good road handling and durability.
- Social Image (see for e.g. Lassar et al., 1995)
- Trustworthiness of the company behind the brand (see for e.g. Lassar et al., 1995)
- Perceived Value (see for e.g. Martin and Brown, 1990)
- Brand Associations (see for e.g. Aaker, 1991; Cobb-Walgren et al., 1995)
- Brand Image (see for e.g. Keller, 1993)

- Brand Loyalty (see for e.g. Aaker, 1991; Cobb-Walgren et al., 1995; Yoo et al., 2000)

Similarly, the results provide evidence in favour of the well-established brand loyalty-brand equity relationship, but do highlight the need to incorporate cultural aspects.

Consequently, even though it is acknowledged that nowadays people from different cultures are increasingly becoming more homogeneous (Hollensen, 2004) and certain cultural universals do exist (Levitt, 1983), the effect of cultural influences should not be dismissed. In fact, as discussed, a number of the identified differences can be justified in the light of existing literature. As such, the research findings substantiate Yoo and Donthu's (2002) thesis that "Hofstede's (2001) cultural dimensions of individualism and uncertainty avoidance seem to significantly affect the brand equity formation process in the international market, resulting in inconsistent impact of marketing activities on brand equity" (p. 394).

Nevertheless, in view of the small (per culture), convenience sample which was employed the results cannot be generalized – they can simply serve as an indication. It is also argued that the study could have benefited from the investigation of more than one product category. Future research can, therefore, capitalise on these limitations.

Notwithstanding the above, it is argued that the research sheds light on the conceptualisation debate of brand equity, supports the multidimensionality of the construct and underlines the essential role that qualitative findings can have in such investigations. In other words, the Brand Image and the Perceived Value dimensions would not have been uncovered if the open-ended questions were not included, nor would a number of subtle, yet important differences, in the composition of dimensions would have been revealed.

## Endnotes

1. The impact of culture may be subtle or pronounced, direct or oblique, enduring or ephemeral.
2. The income category was adapted for each country: specific national currency (Euro for Cyprus, Yuan for China, Leu for Moldova and US Dollar for USA) and monthly salary rates.
3. It is interesting to note that both the US and China have an uncertainty avoidance index which is below the world average, as opposed to Cyprus and Moldova (Hofstede, 2005).

## Biography

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## DOMESTIC AIRLINE SERVICE EXPECTATIONS IN SOUTH AFRICA AND ITALY

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### Abstract

The purpose of this study is to investigate selective service quality elements that contribute to the satisfaction of passengers when making use of domestic airlines in South Africa and to compare the results with a similar investigation in Italy. The expectations of passengers on service quality in the domestic airline industry is vital in understanding areas of success and areas of failure in South Africa and Italy on specific performance areas. Airline passengers qualified to be part of the survey by answering confirmative that they have travelled by means of any domestic airline in the respective country during the last 12 months. Three hundred and forty one respondents agreed to be interviewed in the Tshwane region of South Africa and one hundred in the Verona district of Italy. The questionnaire dealt with aspects such as demographic information, other airline related issues as well as expectations of pre determined service quality variables that relates to a domestic airline. The latter was measured on a seven point scale. Personal interviews were conducted with the respondents by means of a self-completion questionnaire that was drawn up in English and Italian. Data was captured by a trained assistant and analysed by using the SPSS version 17 statistical package.

The main findings is that special attention to passengers on board the aircraft, the quality of food on board, when available and special offers for frequent flyers are amongst the most important issues related to three categories, namely the cabin crew's capabilities, the food and beverage service and the promotional issues. As this research under represent leisure travelers, it is recommended the research should be expanded to include this market segment in order to determine the feasibility of introducing more charter flights aimed at the leisure target market which may create greater possibilities for consolidation of bookings in order to manage low bookings economically, merging of flights, higher utilisation of aircraft and more choice of destination and departure times. The research shall result in improved management of service quality associated with the airline industry in South Africa and Italy. The outcomes of the research will result in the sustainable management of pre-selected service quality elements associated with the airline industry with specific reference to airline passengers. The paper reveals some information about the differences in expectations of South African and Italian passengers and shed light on mainly in-cabin and communication variables.

**Keywords:** services, domestic airlines, expectations

### Introduction

Delivering high quality service to passengers is essential for the airline industry to survive. It is well known that service quality conditions are influencing companies competitive advantage by either

causing to loose or retain customer patronage depending on their experience. This influences market share and consequently profitability (Park, 2007; Park, Robertson & Wu, 2004: 439). The rapid increasing rate of airline passengers to developing countries like South Africa needs to be synergised with good planning of all necessary services and facilities, of which transport is vital, but often a neglected area. Since the democratic election in South Africa in 1994, travelling to South Africa has increased at a progressive pace. After the lifting of sanctions the country became a global competitive tourist attraction. For this reason it is important to ensure that all passengers, local and visitors are amongst others satisfied with the services provided by domestic airlines. This can be achieved by managing service quality to maintain a sustainable airline industry. The study attempts to identify selected service dimensions that matter most to domestic airline passengers in South Africa and to compare it to the domestic airline industry in Italia. Chang, Yeong and Loh (1997:255) points out that benchmarking is becoming an integral part of corporate strategic planning. For this study it implies a process of comparing or benchmarking the South African Airline industry against the Italian airline industry in order to compare and indentify possible gaps.

### **Service Quality and Passengers' Expectations in the Airline industry**

For any business, continuing support depends on repeat customers. According to Park (2007) and Miller, Craighead and Karwan (1999:1) the most effective way to ensure repeat customers is to provide a product or service that continuously meets customer's expectations and to keep promises. In reality, endeavouring to deliver a service of continued quality is a formidable task. Aksoy, Atilgan and Akinci (2003) however point out that most companies do not recognise the importance of this approach until driven to it by circumstances. They point out that passengers' expectations are among the factors influencing the service decisions of airlines and realised the success in customer focussed service development that relies on a deep understanding of customer needs, expectations and preferences.

Service quality represents a critical success factor. Therefore it is particularly important, for every organisation, to define not only customers' satisfaction (measurable, in the context of quality, by the perceived quality) but also the factors that their clients consider most important for a service of high quality (expected service). One of the most used methods to gauge the level of satisfaction and the customers' expectations is the administration of questionnaires. This method has been used in this paper to try defining expectations of passengers using services offered by South African domestic airlines and to compare it with domestic airlines operating in Italy (Trevisan, Sartori, De Jager & Fourie, 2005).

According to Park et al. (2004:435) and Devlin and Dong (1994:562), research has shown that the provision of high quality service relates directly to increased profits, market share and cost savings. Donabedian (1988:174) argues that a requirement for measuring quality is to translate the theoretical concepts into concrete representations that can be quantified. For a service company, success is closely connected to selection, training, motivation and administration of front line staff. Customers identify in front line staff, the organisation that offers the service; therefore front line staff is the most



important factor that links the provision of services to the perception of the quality of services supplied by a given company. Front line staff in the context of this paper refers to crew members that are in direct contact with the passengers and consequently directly represents the airline that employs them. Negri (1997: 73-77) points out that assigning more responsibilities to front line staff involves an increase of information about customers and, as a result, more opportunities to fulfil customers' needs. Zeithaml and Bitner (1996:118) and Devlin and Dong (1994:562) continues this argument by pointing out that "...organisations have to be aware of clients expectations and their perceptions of aspects such as reliability, willingness to help, knowledge, courteousness of employees, interest in members affairs, the physical appearance of personnel, equipment, communication and the accessibility of services." Band (1991:25) calls the above elements a definition of quality service. Defining satisfaction and expectation is a prerequisite for understanding how a service should be supplied in order to be perceived as a service of quality.

The measurement of customers' expectation of service and the actual service in the airline industry, as it is for most services, can be a complex phenomenon. It is assumed that all clients have a certain level of expectations of their service needs before going to a service provider. These expectations may differ from customer to customer and if the expectations are for some or other reason not met, dissatisfaction results. Various factors influence the expectation levels of people. This makes the issue very complex. The outcome of the process (being satisfied or dissatisfied) will differ for each person and this makes measuring of satisfaction very complex. Carr Hill (1992:242) points out that the additional complexities, involved in measuring customer satisfaction, mean that those who set out to measure satisfaction are probably on a hopeless quest. However, the author and Friedenberg (1997a:31) feel that this should not result in not measuring these important tendencies.

In addition, services consist of processes characterised by active customer's participation. Thus it is important for the company to determine which factors are truly required and appreciated by the clients. The perception of service's quality depends on the moments of interaction between customer and organisation (moments of truth): during these moments, for the company it is very important to create and increase customers' loyalty, correctly managing front line staff and the environment of service's delivery (Grönroos, 2002:212). Kotler and Andreason (1996:604) state that the quality of a service can be determined by the extent of the discrepancy between client expectations or desires and their perceptions of the services they receive. For the purpose of this study only expectations are measured.

### **The Airline Industry and the Service experience**

The airline industry is essentially a service industry or perhaps more accurately an amalgam of service industries. Its management practices are typically concerned with issues as service quality and productivity (Otto & Ritchie, 1996; Yoon & Uysel, 2003; Kozak, 2001; Harber & Lerner, 1998; Nield, Kozak & LeGrys, 2000; Weiermair & Fuchs, 1999) as they fall within the aegis of services marketing. Although Otto and Ritchie (1996) refer to these aspects as critical concerns, it refers to technical issues that may tell a part only of the management story. The other critical side, according to the author, is

the subjective personal reactions and feelings experienced by consumers when they consume a service. This phenomenon has been termed the service experience and has been found to be an important part of consumer evaluation of satisfaction with services. Otto and Ritchie (1996) concludes that understanding experiential phenomena in the airline industry is particularly important as emotional reactions and decisions often prevail amongst passengers. Bearing in mind the abovementioned, it is evident that airlines and to a lesser extent tour operators should understand the needs and perceptions of passengers in order to satisfy their needs and consequently to try and capture the biggest market share. For the purpose of this paper the expectations of travelers were measured that will eventually lead to an investigation about their experience.

The marketing literature suggests several customer satisfaction measurement approaches. This includes expectation – performance, importance – performance, pure satisfaction ratings and performance only ratings. Both the performance and the satisfaction ratings method avoid the use of expectation within the measurement of customer satisfaction due to the limitations of the disconfirmation approach and its variants. Millan and Esteban (2003) confirms and points out that when dealing with frequently used services, the average client is capable of creating normal expectations of a service.

### **The Airline Industry and Need Satisfaction**

Air transport is a major role player that facilitates the movement of e.g. holidaymakers and business travellers. In South Africa this mode of transport became more important than any other means of transport compared to other parts of the world like Europe where rail transportation is a safe and economic option. Page (1994:3) states that owing to the choice of transport available and the competitive environment for travellers in free market economies, transport operators recognize the importance of ensuring that the travel experience is both pleasurable and fulfils consumers' expectations. Clearly an investigation should include aspects that originate from the pre booking stage through to the completion of the journey. Gursoy, Chen and Kim (2003) point out that several studies suggested that airline service quality is one of the most critical factors that are likely to influence travellers airline selection decision and significant relationships exist among reputation, service and retained preference. Attributes that are related to service quality that are perceived as important by airline customers are price, safety, timelines, luggage transportation, quality of food and beverage, comfort of the seat, check-in process, inboard service and marketing promotion of airlines (Aksoy et al. 2003). Chang and Yeh (2002:166) and Park (2007) however are of the opinion that one aspect only, *price*, was initially regarded as primary competition weapon. According to these authors, airline industries soon realized that competition on price alone represent a no win situation on the long run. Empirical studies of demand for airlines show that service quality is central to the choice of airlines for both business and leisure travellers.

### **Airline Marketing Strategies – Towards Customer Care**

According to Tsaur, Chang and Yen (2002:107) airlines are offering amongst others more convenient routes, more promotional incentives like mileage rewards, frequent flyer membership program and

sweepstakes in an attempt to consolidate their market share and to enhance profitability. However, they point out that the marginal benefits of marketing strategies gradually reduce because most of the airlines act similarly. Due to the recognition of the limitation of marketing strategies, some air carriers rather tend to focus on the commitment of improving customer service quality (De Jager, Fourie, Trevisan & Sartori, 2005). Like any other industry, the airline industry's understanding of what passengers expect is essential to providing superior service quality. Gilbert and Wong (2003:519) suggest that delivering superior service quality is a prerequisite for success and survival in today's competitive business environment. Gursoy, Chen and Kim (2003:1) point out that an essential component of a successful positioning strategy is gaining a better understanding of customers' perception of quality of services provided by airlines. Dube and Renaghan (1999:90) emphasise that a positioning strategy should weave together promises of distinct experiences, benefits, and personal values with the actual production of the service experience. The passenger should experience the feeling of power when he/she for example experiences a bigger seat compared to the normal economic class seat.

According to Gilbert and Wong (2003:519) and Park (2007) the airline industry is undergoing a very difficult time and many companies are in search of service segmentation strategies that will satisfy different target market segments. Some of these segmentation strategies may include choices like low cost (Mason, 2001) versus traditional airlines and business class versus a combination of economic and business class travellers. Eccles (1995:20) point out the need for social marketing strategies – in essence tourism marketing will increasingly focus on the customer. This includes investigating the needs, expectations and satisfaction rates of consumers regarding the service rendered on airlines. Gilbert and Wong (2003:519) came to the conclusion that the lessons that have been learned over the last decade from service quality proves that there is a strong indication that improvement in service provides improved profit due to increasing customer base through new and repeat purchases from more loyal customers. The improvement in performance quality and satisfaction will result in retention and expansion of passenger numbers, more vociferous and active passengers support, and ultimately enhanced profitability and political support. As a result it seems logical that there should be a causal link between quality of airline supplier's performance, level of consumer satisfaction, and the organizations success.

## **Research Problem**

It is assumed that airline management are planning their business with sufficient knowledge about the expectations of passengers with regard to the services rendered to them. The problem under investigation in this paper is to investigate to what extent the services on domestic airlines are being regarded important in South Africa and to compare or benchmark it with the domestic airline industry in Italy. This should provide some extent of direction in order to satisfy client's need and consequently be profitable and to increase their market share. Gilbert and Wong (2003:520) state that in the airline industry context, the problem is whether management can perceive correctly what passengers want and expect. This becomes increasingly important resulting from the financial

difficulties airlines are experiencing since the terrorist attacks of 11 September 2001 in the United States of America. The need for the study results from a worldwide tendency of economic downturn and the public caution on air travel, which is caused by the capacity of the airline industry to exceed demand substantially (Gursoy, Chen & Kim, 2003:1).

### **Purpose of the Study**

The purpose of this paper is to identify selected service quality elements that may contribute to the satisfaction of passengers when making use of domestic airlines in South Africa. This research identifies the most preferred service quality factors in selected categories in the domestic airline industry in Italy and South Africa. The research shall result in improved management of service quality associated with the airline industry. The outcomes of the research will result in the sustainable management of pre-selected service quality elements associated with the airline industry with specific reference to airline passengers. This is preceded by a literature study addressing the need of assessing expectations and perceptions of airline passengers. The study concludes with some suggested applications of some strategies to ensure satisfied passengers on board domestic airlines.

### **Research Design and Methodology**

The primary objective of the study is to identify the rate of importance with regard to pre selected service quality variables to passengers when making use of domestic airlines in South Africa. These results are then compared to the findings of a similar study in Italy in order to see whether any similarities exist. The study follows a similar study that was performed prior to the current study.

### **Sample description**

Passengers qualified to be part of the survey by answering confirmative that they have travelled by means of any domestic airline in the respective country during the last 12 months. Potential participants were then approached for their willingness to participate to the survey. Three hundred and forty one respondents agreed to be interviewed in the Tshwane region of South Africa and approximately one hundred in the Verona district of Italy.

Characteristics of the sample are indicated in table 1.

	<i>Italy</i>	<i>SA</i>	<i>Total</i>	<i>Total %</i>
<i>Age</i>				
< 20 years	0	13	13	2.9
20-30 years	26	161	187	42.3
31-40 years	25	84	109	24.7
41-50 years	24	53	77	17.4
51-60 years	18	21	39	8.8
60+ years	8	9	17	3.8
<i>Occupation</i>				
Self employed	32	95	127	28.7
Private sector employed	44	110	154	34.8
Public sector	15	79	94	21.3
Other	11	56	67	15.15
<i>Main purpose of travelling</i>				
Business	69	179	248	56.4
Education	1	23	24	5.5
Vacation	22	75	97	22
Visit to family, friends or relatives	5	46	51	11.6
Other	4	16	20	4.5
<i>Flight class usually fly</i>				
Business class	2	98	100	22.6
Economy	82	230	312	70.6
Other	17	13	30	6.8

Table 1: Summary of Respondent Profile

The sample is composed of 441 respondents, 340 of them from South Africa and 101 from Italy. The age of the respondents is given in table 1. Particularly noticeable is the fact that almost one half of the South African sub-sample is made up of people between 20 and 30 years of age, while only one quarter of the Italians belong to this age group. The age group of air passengers in the Italian sample is noticeably higher than the South African sample: indeed almost exactly one half of them are older than 40 years, against one quarter of the South African sample. Most of the passengers have indicated that they are employed in the private sector and that their work is mainly the reason for them traveling.

As can be seen from table 1, the main reason for both sub-samples travelling is work related (two thirds of the Italian sample and slightly over one half of the South African sample) followed by holidays (more than one fifth in both samples). The Italian sample has a significantly higher number of passengers employed in the private sector and consequently also travelled for business reasons.

### **The measuring instrument**

The questionnaire was constructed by various inputs from both primary and secondary sources. Primary inputs were generated by focus groups that had prior experience of domestic airlines. Secondary inputs were collected from brochures and publications (Johnson, 1995 and Otto & Ritchie, 1996). The questionnaire dealt with aspects like demographic information, other airline related issues as well as expectations of pre determined service quality variables that relates to a domestic airline. The latter was measured on a seven point scale ranging from very important (1), important (2), somewhat important (3), neither important nor unimportant (4) somewhat unimportant (5), unimportant (6) and not important at all (7).

The questionnaire was first pilot tested. After a few adjustments to the questionnaire it was tested on 341 travellers on domestic airlines living in the Tshwane region of South Africa and approximately 100 travellers in the Verona district of Italy. To determine the reliability of the results, a Cronbach Alpha test was performed which yielded results of above 0.92 for the different seven point scaled questions that was included in the questionnaire. An analysis of variance (ANOVA) was conducted to determine a 95% level of significance between the two groups under investigation and are indicated in the tables. The variables were grouped into six logical categories but for the purpose of this paper only the cabin crew's competencies, the food and beverage services and the promotional activities are dealt with.

### **Administration of the measuring instrument**

Personal interviews were conducted with the respondents by means of a self-completion questionnaire that was drawn up in English and Italian. In the case of the South African fieldworkers, they were capable to assist in translating some of the questions to especially African languages. All the respondents in Italy were Italian speakers or had knowledge of that language.

### **Data capturing**

Data was captured by a trained assistant and analysed by using the SPSS version 17 statistical package.

### **Findings of the Research**

Table 2 indicates the extent of importance that relates to the cabin crews competencies on board an aircraft. The Italian sample's most preferred variable in this construct is close attention by the cabin crew while the South African sample prefers the cabin crews' ability to speak various languages. Close attention by cabin crew members was rated as fifth most preferred variable by the South African sample. On the other hand the Italian sample rated the ability of the crew members to speak various languages as sixth most preferred variable. With regards to the variable, close attention by cabin crew, significant differences were measured between the two sample groups while no significant differences were measured between the two sample groups in terms of the cabin crews' ability to speak various languages. The crew's credibility was rated as second most important variable by the Italian sample while the South African sample rated it in seventh position. Significant

statistical differences were measured between the two groups. The South African sample rated the physical appearance of the cabin crew as second most important, while the Italian sample rated it in third place. Although no statistical significant differences were measured, the Italian sample rated it slightly more important compared to their South African counterparts. The ability of the cabin crew to keep clients informed about all types of flights was rated least important by the Italian sample. Statistical significant differences were measured between the two sample groups with the South African sample rated it relatively much more important.

	<i>South Africa</i>		<i>Italy</i>		<i>T-value</i>	<i>P-value</i>
	<i>Mean</i>	<i>SD</i>	<i>Mean</i>	<i>SD</i>		
<i>Personnel's ability to keep clients informed about all types of flight info V106</i>	2.31 4	1.51	2.86 7	1.45	11.58	0.0007
<i>Personnel's ability to innovation and improvement in services V108</i>	2.3 3	1.59	2.54 5	1.1	2.056	0.15
<i>Physical appearance of cabin crew V114</i>	2.27 2	1.59	2.41 3	1.06	0.86	0.40
<i>Cabin crew's credibility V116</i>	2.54 7	1.71	2.01 2	0.96	8.732	0.003
<i>Cabin crew's ability to answer questions V118</i>	2.47 6	1.78	2.52 4	1.25	0.096	0.756
<i>Cabin crew's ability to speak various languages V123</i>	2.19 1	1.81	2.73 6	1.4	0.85	0.356
<i>Close attention by cabin crew V128</i>	2.33 5	1.67	1.87 1	0.72	7.23	0.0075

Table 2 Cabin crew's competencies

Table 3 indicates the rate of importance of the food and beverage service on board an aircraft. Both samples were in agreement in terms of the order of importance attached to each variable. However the South African sample placed a higher premium on each of these variables. This resulted in statistical significant differences between the two different samples in terms of each of the variables. In order of preference, the quality of food served was rated as most important variable in this category, followed by the variety of food, timeliness of food served and amount of food offered. The least important variable in this category was the availability of free alcoholic beverages.

	South Africa		Italy		T-value	P-value
	Mean	SD	Mean	SD		
Variety of food served during the flight v113	2.16 2	1.57	3.14 2	1.63	29.39	0.0001
Quality of food served v119	1.97 1	1.45	2.83 1	1.63	25.929	0.0001
Amount of food served during the flight v124	2.90 4	1.56	3.97 4	1.51	56.99	0.0001
Timeliness of food and drink service v126	2.44 3	1.53	3.93 3	1.59	71.69	0.0001
Free alcoholic drinks v121	3.42 5	2.00	5.54 5	1.75	49.25	0.0001

Table 3: Food and beverage service

	South Africa		Italy		T-value	P-value
	Mean	SD	Mean	SD		
Availability of airline website on the internet v101	2.63 3	1.58	3.32 3	1.78	13.65	0.0002
Adequacy and amount of information on airlines website v109	2.73 2	1.16	3.18 2	1.5	5.95	0.0151
Attractiveness of advertisements of the airline v120	2.97 5	1.67	4.84 5	1.45	106.45	0.0001
Visual attractiveness of the promotion material v125	2.95 4	1.62	3.74 4	1.4	19.687	0.0001
Special offers for frequent fliers (discounts, free tickets, club membership) v 127	2.19 1	1.64	2.29 1	1.29	0.34	0.559

Table 4: Promotion activities

Table 4 indicates the extent of importance of promotional activities used by the various airlines to attract potential clients. Both sample groups were in agreement in terms of the sequence of the variable ranked in order of importance. The South African sample again assigned a higher rate of importance to each variable. This resulted in the measurement of statistical significant differences between the two samples in terms of each variable except special offers for frequent flyers. The most important variable in this category is in fact special offers for frequent flyers, followed by adequacy and amount of information on an airlines website. The third most preferred variable by both airlines passengers is the availability of an airlines website on the internet, followed by the visual attractiveness of the promotional material. The least preferred variable is the attractiveness of advertisements of an airline.



## Conclusions and Recommendations

The purpose of this study is to identify selected service quality elements that may contribute to the satisfaction of travelers when making use of domestic airlines in South Africa and Italy. For the purpose of this paper this research identifies the most preferred service quality factors in selected categories in the domestic airline industry in South Africa and to compare it with as sample in Italy. The categories were limited to Competencies of cabin crew, food and beverage services and airline promotional activities. Considering the research findings and applying the recommendations should result in improved management of service quality associated with the airline industry. Adhering to the findings will ensure that airlines can plan ahead to try and capture the largest potential market share by satisfying the needs of travelers when boarding a national air carrier. Aksoy (2003) points out that cabin features in the airline industry are the most critical elements in the physical environment and thus the reason why emphasis is placed on variables that relates to the cabin as well as factors to attract passengers like promotion attempts.

The first construct that was measured dealt with the extent of importance that relates to the cabin crews competencies on board an aircraft. The Italian sample's most preferred variable in this construct is close attention by the cabin crew while the South African sample prefers the cabin crews' ability to speak various languages. The conclusion is that a personal approach with passengers by the cabin crew operating in Italy should be high on the agenda when designing a marketing plan. This may secure a competitive advantage in their favor. As expected the South African sample are placing a high premium on the ability of crew members to address them in their own language. Keeping in mind that South Africa has eleven official languages this came as no surprise. Airlines serving the South African air space should prioritized this phenomenon when preparing flights to various destinations. Further research is suggested in terms of what languages are more in demand and what the attitude of people is regarding the use of English as communication language to serve all passengers. Regardless of this debate, by satisfying the needs of clients in terms of their preferred language will create a competitive advantage for a particular airline that fulfill this need.

Close attention by cabin crew members was rated as fifth most preferred variable by the South African sample which does not necessarily imply that an impersonal approach should be applied to them. However significant differences were measured between the two groups. The Italian sample rated the ability of the crew members to speak various languages as sixth most preferred variable. This finding has been expected as all the sample members had knowledge of Italian. Thus in terms of this variable, it can be argued that because this need has been satisfied in a sense it was consequently rated less important than other variables.

The crew's credibility was rated as second most important variable by the Italian sample while the South African sample rated it in seventh position. Significant statistical differences were measured between the two groups and may refer to a desire by the Italian sample to be served by credible front line staff. Aksoy et al. (2003) came to the conclusion that frontline employees as well as those supporting them from behind the scenes, represents the people element of the service marketing mix

and is critical to the success of any service organisation. On the same note the South African sample rated the physical appearance of the cabin crew as second most importance, while the Italian sample rated it in third place. Although no statistical significant differences were measured, the Italian sample rated it slightly more important compared to their South African counterparts.

The ability of the cabin crew to keep clients informed about all types of flights was rated least important by the Italian sample. Statistical significant differences were measured between the two sample groups with the South African sample rated it relatively much more important.

Aksoy et al. (2003) point out that the variety, quality, timeliness and the amount of food served were an important service dimension for all passengers investigated in their study, both international and domestic travelers. Regarding the rate of importance of the food and beverage service on board an aircraft, both Italia and South African samples were in agreement in terms of the order of importance attached to each variable. However the South African sample placed a much higher premium on each of these variables. This resulted in statistical significant differences between the two different samples in terms of each of the variables. In order of preference, the quality of food served was rated as most important variable in this category, followed by the variety of food, timeliness of food served and amount of food offered. It is concluded that the South African sample is placing a significantly higher premium on the availability of food and should consequently be incorporated when developing a marketing plan.

The least important variable in this category was the availability of free alcoholic beverages. This finding is an important indication that the availability of food on domestic airlines are important and should get appropriate attention.

Lastly the extent of importance of promotional activities used by the various airlines to attract potential clients was measured. Both sample groups were in agreement in terms of the sequence of the variable ranked in order of importance. The South African sample again assigned a higher rate of importance to each variable. This resulted in the measurement of statistical significant differences between the two samples in terms of each variable except special offers for frequent flyers. The most important variable in this category is in fact special offers for frequent flyers, followed by adequacy and amount of information on an airlines website. The third most preferred variable by both airlines passengers is the availability of an airlines website on the internet, followed by the visual attractiveness of the promotional material. The least preferred variable is the attractiveness of advertisements of an airline. The relative high rate of importance that the South African sample assigned to this construct is a clear indication that a high premium should be placed on effective marketing communication. This should be aimed to inform clients and potential clients about special offers and other relevant information that might be of assistance. Although it was rated in the same sequence the Italian sample is less sensitive regarding communication.

As this research under represent leisure travellers, it is recommended the research should be expanded to include this market segment in order to determine the feasibility of introducing more charter flights aimed at the leisure target market which may create greater possibilities for

consolidation of bookings in order to manage low bookings economically, merging of flights, higher utilisation of aircraft and more choice of destination and departure times.

## Biography

**Johan De Jager** holds a PhD degree and is Research and Innovation Professor of the Department Marketing, Logistics and Sport management at the Tshwane University of Technology in Pretoria, South Africa. His major areas of interest are marketing of non profit organisations and services such as health care and higher education. His major responsibilities are the supervising of post graduate students and conducting other marketing related research projects. He represents the Faculty of Management Sciences in a number of committees. He regularly acts as external examiner locally and in various African countries. Johan also serves on the executive board of three international academic boards.

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## THE VOYAGE OF QUALITATIVE RESEARCHER: INSIGHTS ON THE EXPERIENCE OF INTERPRETIVISM IN MARKETING RESEARCH

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### Abstract

The purpose of this paper is to provide a comprehensive overview on the debates of marketing theory development and the possible paradigm shift in academic research in marketing. The paper also reviews some of the major challenges qualitative research in marketing faces on rhetoric and practical levels, and offers insight into real-life researcher experiences in conducting qualitative research in bank marketing field. This is a conceptual paper reflecting on the debates over the influences of interpretive research approach and qualitative methodology on marketing discipline found in the popular qualitative and marketing research literature. The paper also provides personal commentaries on the experiences of the academic researcher in conducting purely qualitative academic study in marketing. This paper highlights the rhetoric challenges of conducting qualitative research in marketing, such as the inherent bond to research context, the abstractness and possible manipulation of findings interpretation, and the appreciation of the worth of qualitative research in academic. Moreover, the paper provides brief overview of the practical challenges of thorough planning and dealing with unforeseen obstacles in conducting qualitative research in bank marketing. The main aspect differentiating this paper is the focus on the weak points in the philosophy of qualitative research and the explanation of their occurrence. Additionally, this paper is of value to new researchers seeking clarifications on the issues of development of theories in marketing, the interplay of research paradigms in marketing, and an illustration of some practical challenges encountered by researcher when conducting qualitative research in bank marketing.

**Keywords:** Interpretivism, qualitative research methodology, paradigm shift, marketing discipline

### Introduction

When embarking on a journey in research in marketing, new researchers have optimism and passion for discovering intelligence about the world we live in. The ways to obtain the knowledge often seem to be attractively straightforward and simple in the beginning. However, the things become complicated as new researchers face the unforeseen challenges of having to structure, explain, connect and justify their research approaches according to the unyielding traditional standards of the

academic society. The voyage to academic excellence is demanding and challenging for many new researchers, and the excitement for new discoveries may encumber and weaken over time with new trials. This is especially true for the researchers driving on the less prevalent curvy and seemingly enigmatic roads of inductive approach and qualitative methodology, with few directions and signs on the way (to the contrary of the proposed metaphor of the straight, well-lit and high-traffic highways of more popular quantitative approaches in academic research) (Milliken, 2001).

With this imaginative and metaphorical introduction to the dichotomy of research approaches in mind, authors of this paper wish to introduce challenges new researchers commonly face when pursuing the path of qualitative research in their academic endeavors, especially in the quickly evolving, and versatile field of marketing. This paper aims to clarify the main issues on the academic debate over the possible paradigm shift in the research methodologies and approaches in marketing and the renaissance of the interest in qualitative research in marketing discipline today (Hunt, 1994; Milliken, 2001; Chung & Alagantam, 2001; Hanson & Grimmer, 2007). This paper wishes to shed the light on the arising practical hindrances and challenges researchers face when pursuing qualitative approaches in exploring contemporary phenomena in marketing and on the battle to justify and defend the value and insights of qualitative research in marketing. While providing a review of the common challenges of qualitative research based on the popular literature on marketing theory (Morgan & Smircich, 1980; Lincoln & Guba, 1985; De Ruyter & Scholl, 1998; Carson et al, 2001; Gummesson, 2005; Black, 2006), authors also wish to offer a short insight into the authors' personal challenges and experiences when conducting qualitative research in exploring the phenomena of relationship marketing and online communications in the eclectic field of bank marketing (Kapoulas et al, 2002; Kapoulas et al, 2004), and therefore have practical value to new researchers commencing their own qualitative research journeys.

### **On the Road towards Marketing Theory and Theories in Marketing**

Some of the essential questions every new marketing researcher faces when embarking on academic research journey are: "What defines the discipline of marketing? Is it a science, an art, a collection of practices in management theory? Is there such thing as marketing theory? And how does this definition prescribe the research approaches when searching for new knowledge in marketing?" There is a large debate among academics over how marketing should be defined and what impact this designation will have on the development of new theories in marketing and the approaches they are built on (Hunt, 1994; DeRuyter & Scholl, 1998; Carson et al, 2001; Gummesson, 2005). Gummesson (2005) observed that despite the introduction of new concepts and models in business studies, marketing is still viewed in academia as an external branch of management theory and a discipline of lower status and often trivialized contribution to science. The main reason for the lack of appreciation for research efforts in marketing stems from the different perceptions among academia on the value and scope of theorizations in marketing.

The first academic efforts in the research in marketing domain were inductive-statistical in nature, favoring descriptive and case-by-case approaches in genuinely positivist orientation to investigating

marketing processes and the “how to” of marketing practice (Jones & Monieson, 1990). The dominant belief among the first academic marketing theoreticians was that “scientific principles and generalizations of business should be built up by observation and induction from widely gathered and carefully sifted facts” (Jones & Monieson, 1990, p. 107). One of the principle approaches in early marketing research was the case method (largely advocated by the Harvard Business School and cited as one of the major contributions of the School to the development of marketing thought) (Jones & Monieson, 1990). “That research tradition was an inductive-statistical version of positivism. It combined the exploratory, descriptive, process orientation of nineteenth century German Idealism with a faith in the objectivity of facts and a concern with problem solving” (Jones & Monieson, 1990, p.110). However, as the interest in the research in business disciplines and marketing expanded, the early years of the 20th century introduced the idea of developing the “science of business” with “generalized rules of conduct based on law” and “summary statement of fact or a description of a tendency common to a class of things” (Jones & Monieson, 1990, p. 108). The idea of introducing the “laboratory method” to investigate marketing functions originated from the aspirations to approximate efforts in marketing studies to the level of natural sciences, through implementation of statistical examinations, comparisons and generalizations (Jones & Monieson, 1990).

In the 1960s and 1970s common debate in marketing was the nature of marketing theory: the possibilities for its generalization and universality, its scientific validity and testability, and the degree of “abstraction” in theory that would permit flexibility in defining marketing concepts and focus on “various special cases in perspective” (Hunt, 1983). There was a pressure to generalize marketing theory to contain and explain numerous marketing phenomena in a wish to “elevate” marketing discipline and develop marketing as a methodical teaching equivalent in recognition and power to the positivist economics and management disciplines. An example of such endeavors could be found in the proposed definition of marketing as “behavioral science that seeks to explain exchange relationships” (Hunt, 1983, p.13). Hunt (1983) used the term “marketing science” to encompass the “explanenda of marketing” – the fundamental exchanges between buyers, sellers and institutional frameworks comprising the essence of marketing, its teachings and research. This “explanenda” and scientific reference to marketing brought in the spotlight the recognition that while “theories in marketing” could be formulated to reflect on the dimensions of each fundamental exchange, “general theory of marketing” embracing all the forms and circumstances of exchanges would be a challenge to define, due to versatility of phenomena in marketing and the complexity in their interconnectedness (Hunt, 1983). Along with these remarks, there was a wave of criticism towards academic research in marketing for marginal contributions to the marketing theory and development of few original theorizations and strategic implications in marketing discipline (Hunt, 1994). Scholars also recognized that marketing suffered from the ambiguity in theory development due to the imposition of constructs which scrutinized marketing concepts and models for validity and generalization rather than judged their usefulness, “conceptual development” and “speculative thought” of the “imagination, representation, and selection make to the process” (Weick, 1989, p. 516). According to Hunt (1994), the reason for “failure” of grand marketing theory and studies of

marketing practices in particular domains (such as relationship marketing, for instance) could be traced back to the notion that marketing has been long treated as an “applied discipline”, with a common habit among researchers to prescribe theories and to fit approaches of economics to the phenomena unique only to marketing, thus refraining to overcome the boundaries of traditional economic science and develop original contributions relevant to the marketing field as a sovereign organizational discipline in business studies. Gummesson (2005, p. 310) recently raised critical questions addressing the academic value of the contemporary research in marketing and its contribution to the business theory and practice: “Do we really come up with results of any impact? Do we offer anything novel that also has practical relevance? Do we make things happen? Do we even react when things happen or do we just follow the “research as usual” daily routine?[...] Is research methodology with its techniques mainly producing trivial and shallow results with little import?” Thus, the old model of theory constructs through “disciplinary” approach of “trail-and-error” was regarded more critically and spurred demand for more imaginative theory-building standards to permit flexibility in incorporating newly emerging and quickly evolving marketing concepts in theorizations (Weick, 1989).

### **Stumbling upon the “paradigm shift” debate**

Stemming from the discussion on the realization that marketing theories demand more conceptual, rather than scientific approach in development, our discussion approaches the “paradigm shift” crossroad on the road of qualitative research journey in marketing. Common understanding of the term paradigm today is largely based on the depiction by Kuhn (1973), suggesting that the concept encompasses “... the entire constellation of beliefs, values, techniques and so on shared by the members of a given community” (Hunt, 1994; Barker et al, 2001). Paradigm consists of the ontological, epistemological and methodological beliefs about the knowledge, depicted in the form of theories and concepts comprising the knowledge, the approaches through which knowledge is generated, and the criteria for scrutinizing the value and truthfulness of the obtained knowledge (Lincoln & Guba, 1985; Hunt, 1994; Milliken, 2001, Carson et al, 2001). It is regarded to be a general model for theory building and theory development through pre-established rules and assumptions about the nature of the examined subject and the research approaches to be pursued in the quest for knowledge about the subject (Barker et al, 2001).

Two grand research paradigms contributed to the building of knowledge in marketing and marketing as academic discipline: positivist paradigm (also known as traditionalist, scientific, objectivist, experimentalist, and quantitative) and interpretivist/phenomenological paradigm (commonly referred to as humanistic, subjectivist and qualitative) (Lincoln & Guba, 1985; Carson et al, 2001; Barker et al, 2001; Milliken, 2001). In attempt to simplify the meaning and contributions of these paradigms in the development of marketing school of thought, it is commonly referred that while the positivist paradigm is guiding approach for “testing” the assumptions about the knowledge of the defined marketing variables, the interpretivist paradigm is oriented towards “searching” for multiple sources and representations of knowledge of the concepts in marketing less recognized and/or yet to be defined (Barker et al, 2001, Carson et al, 2001). However, this oversimplification of



the differences between the paradigms does not account for the complex dissimilarities in the ontological, epistemological and methodological approaches of each paradigm, embedded in their differential philosophical views of the world and the reality, the social relationship between the researcher and the subject, the values guiding the research, the language implemented by the researcher, and the nature of theory and technical methodology pursued by the research (Barker et al, 2001; Lincoln & Guba, 1985; Black, 2006). The need for picking the sides or choosing the right or left road at the paradigm intersection faced by researchers in marketing could be attributed to recognition that adherence to either of the paradigms ultimately and inevitably influenced the manner in which: (1) the identification of research problem and selection of research question occurs; (2) the way in which research problem and research question are formulated and presented for investigation, and (3) the selection and pursuit of research approaches and methodologies believed to answer the research query and phenomena of research interest in the best manner (Rod, 2009).

One of the major debates in the marketing nowadays centers on the interplay of research paradigms that have built and modeled the discipline as we know it today, as well as whether there has been a dramatic shift in dominance of one research philosophy over another in the past years (Barker et al, 2001; Gummesson, 2005; Rod, 2009). Most of the well-know marketing principles, models and theorizations in the early and mid-20th century were results of the largely positivist efforts to introduce universally applicable rules and guidelines for ever-lasting strategies to the eclectic and socially sensitive field of marketing (Hunt, 1983; Chung & Alagaratnam, 2001). The recognition in the second half of the 20th century that marketing is above all a social practice and discipline which should reflect the needs and demands of variety of customer needs and wants over time brought to a resurrection the idea of research tackling “how different world views impact the development of marketing thought” (Chung & Alagaratnam, 2001, p. 225). One of the examples of such re-orientations in the search for knowledge in marketing was the development of relationship marketing school of thought, stimulated by the interest to examine the aspects and elements of seller-customer relationships from different ontological, epistemological and methodological perspectives (Chung & Alagaratnam, 2001). Towards the end of the 20th century there was a notable interest among marketing scholars in the “resurrection” of constructivism, relativism and subjectivism and interpretive approaches in researching newly emerging and un-tackled phenomena in marketing (such as online marketing, relationship marketing, behavior of new consumer groups etc), under the premise of exploring and indentifying the unknown variables (Hunt, 1994; Hanson & Grimmer, 2007). According to Hanson & Grimmer (2007), the interest in qualitative research in marketing was largely spurred by the “shift” towards qualitative methods in research (i.e. the rising popularity of focus group studies in the marketing in UK). In 1990s marketing literature even encountered the launch of specialized publications and journals dedicated solely to the qualitative academic research efforts in marketing domain (i.e. “Qualitative Market Research: An International Journal”). This stir in the traditional approach to academic research in marketing contributed to the discussion over possible shift in dominant paradigms, with qualitative methodology and interpretive stance increasingly

approaching the status of the “mainstream” research movement in the studies of the new century (Hunt, 1994; Hogg & Maclaran, 2008).

Considering that the positivist approach was dominant for the greater part of the history of marketing school of thought, many academics questioned the weight of claims over the occurrence of true shift towards constructivist and qualitative approaches in marketing research paradigms (Barker et al, 2001). On the rhetorical level, Hunt (1994) argued that the occurrence of paradigm shift in research in marketing would have been impossible since marketing as any other discipline could not have been built on a single paradigm foundation. According to Hunt (1994, p. 18): “In fact, marketing has historically been an extraordinarily open discipline, borrowing – often indiscriminately – methods, theories and concepts from everywhere.” Hunt (1994) further argued that interpretive orientation and qualitative methodology received lesser acceptance among marketing academia in the golden ages of marketing thought due to the weaknesses of convincing arguments for qualitative stance and references to essentially misinterpreted philosophies of constructivism and relativism.

On the practical research side, two studies by Chung & Alagratnam (2001) and Hanson & Grimmer (2007) attempted to clarify the debate over paradigm shift by examining the volumes of quantitative versus qualitative contribution to academic marketing publications the over years, and thus offered a historical overview on the progression of research in marketing. Chung & Alagratnam (2001) conducted a survey of marketing publications from 1970s to 1990s to investigate the possible shift in research paradigms and the move from positivism to interpretivism. According to Chung & Alagratnam (2001), the 1970s decade in marketing was largely characterized by publication of research conducted primarily through quantitative methodologies, statistical models, and positivist-oriented “systems” view in research. During the 1980s, although positivist stance and focus sample size and representativeness, replication, generalization, and establishment of laws in marketing were dominant grounds for majority of the published marketing studies, there was a notable proneness towards the “alternative paradigm” and models that recognize marketing processes and individuality of each consumer (Chung & Alagratnam, 2001). However, the principle of these works was described as merely “sympathetic” and tolerant to the introduction of alternative interpretive research approach in theory development (Chung & Alagratnam, 2001). Authors noted that domination of positivist paradigm in marketing research publications could be largely attributed to the influences of journal editors who identified themselves with the positivist schools of research. According to Chung & Alagratnam (2001), the decade of 1990s was marked by the recognized propositions that the dominant positivist view in research was becoming “obsolete and dysfunctional” (p. 228) and “research that just pushed numbers around embarrassed us” (p. 230). Moreover, some of the editors of academic marketing journals at the time urged of the “need to learn about the alternatives to positivism” and “more tolerance of new theoretical perspectives” (Chung & Alagratnam, 2001, p. 229). In the late 1990s there was a notable increase in the number of interpretive-oriented publications, covering the qualitative research in relationship marketing, consumer trust, new product performance, branding, and consumer consumption and various other aspects of consumer behavior (Chung & Alagratnam, 2001). There was a noted need to recognize “the transient nature of marketing phenomena” and act

accordingly (Chung & Alagratnam, 2001, p. 231). However, the authors pessimistically concluded that: “[...] it appears that the functionalist paradigm is still deeply entrenched in marketing academia” (Chung & Alagratnam, 2001, p. 230).

Similar scrutiny of the validity of “paradigm shift” claims in research approaches in marketing was conducted in work by Hason & Grimmer (2007), who performed content analysis of over 1,000 articles in academic marketing research journals published between 1993 and 2002 in order to determine the statistical dominance of either of approaches, as well as to investigate the progress of qualitative efforts in marketing studies. Their research revealed that approximately a quarter of research papers were dedicated to qualitative research and only a tenth of all papers were purely qualitative, the remaining share belonging to quantitative efforts (Hanson & Grimmer, 2007). Authors attributed such disproportion in methodologies and methods applied in marketing studies to three major factors: (1) the historical influences of positivist research tradition in the field as well as the belief that qualitative methods of inquiry are “less solid” than their statistical hypothesis-based counterparts (2) the power of positivist teaching in terms of publications and scientific recognition of quantitative methods to be “legitimated as the best research” by a majority in academic research community; and (3) the technical aspects of publication formats of academic journals and their limiting spaces for thorough explanation and justification of qualitative inquiry in marketing studies (Hanson & Grimmer, 2007). Hanson & Grimmer (2007) further argued that: “It more likely that qualitative research will become more quantitative in appearance rather than it will increase in importance” (p. 68). However, authors noted that there was a notable shift in co-relation between the works containing purely qualitative research and the mix of qualitative and quantitative methods, with the former over-counting or approaching balance with the latter since 1997 (Hanson & Grimmer, 2007). According to authors, the main motives for employing qualitative research in marketing studies were the quest for “more insight or a deeper understanding of the phenomenon under investigation”, “exploration of experiences”, and “development of meaning” (Hanson & Grimmer, 2007, p. 65). Hanson & Grimmer (2007) finally suggested that there was a scope for greater efforts in qualitative research in the future, arguing that the increasing use of software-based analysis of qualitative data were likely to contribute to greater rigor and objectivity in qualitative studies and approximation to the explicit standards applicable to quantitative research.

It is difficult to argue for the existence of the true paradigm shift in research approaches in marketing after such elaborate examinations of the actual volume of recent interpretive qualitative research efforts in marketing. However, the gates of the paradigm-shifting road of research in marketing should not be so easily closed and the route less taken of interpretivist and qualitative research should not be so readily discarded. It should be noted that the aforementioned studies were of evidently classical quantitative-statistical nature, and of a rather positivist predispositions of how research paradigms in marketing should be valued. What these studies critically missed was the appraisal of quality of knowledge qualitative research efforts introduced over the years to the marketing discipline in terms of the originality of concepts identified and examined, the comprehensive coverage of the phenomena, the “wealth of problem statement” and the “imagination

in theorizing” on specific and concrete occurrences in marketing practices (Weick, 1989; De Ruyter & Scholl, 1998).

### **Encountering Challenges of the Road of Qualitative Research in Marketing**

Before bravely facing the challenges of interpretivist approach and qualitative methodologies in marketing research, we feel it is important to provide a brief and honest reminder of the essential characteristics of the qualitative research in marketing. Qualitative research does not promise transparency or straightforward orderly fashion in tackling research problems in marketing studies (Gummesson, 2005). It does not provide researchers with a set of rules to be followed that could give the researcher a sense of comfortable security and a safety cushion against possible missteps on the road to knowledge (Carson et al, 2001; Barker et al, 2001). By relying on the “power of words and images” it does not offer the constancy of meaning characteristic to numbers and equations. It is rather “a conscious search for meaning and understanding” (Gummesson, 2005, p. 311) and a quest for in-depth comprehension and awareness of problems and phenomena (De Ruyter & Scholl, 1998). Qualitative research is essentially of “diagnostic exploratory nature”, and its unrestricted inquisitiveness towards the unfamiliar is what permits it to contribute to the development of new conceptualizations in still evolving disciplines such as marketing (De Ruyter & Scholl, 1998, p. 8). It offers the possibility to tap into the sea of behaviors and attitudes in marketing exchanges that permit to be “separated into bits and pieces, assigned to abstract dimensions, meanings, motivations, associations and emotions and finally integrated into one overall picture that can be used to guide the marketing policy of organizations”( De Ruyter & Scholl, 1998, p.8).

The challenge of research in marketing is summarized in the observation that in marketing “data are mostly hard to find, hard to define, and they are incomplete”, and the answers do not lay in the increased volumes of newly acquired data, but rather in their descriptive and explanatory powers (Gummesson, 2005, p. 311; Carson et al, 2001). However, researchers embarking on its road in the quest for new theories in marketing should acknowledge that: “Qualitative research is an approach rather than a particular set of techniques, and its appropriateness derives from the nature of the social phenomena to be explored” (Morgan & Smircich, 1980, p. 491). According to Hogg & Maclaren (2008), qualitative research faces a challenge of acceptance that its knowledge is derived from the context-specific outlook on the examined phenomena, innate subjectivity to researcher’s and participants’ frames of reference, interpretations rather than single-sided precision of research insights, and a depiction of social experiences.

In this sensitivity to the abstractness of the links between the subject investigated and the methodology applied, qualitative research also bears the challenge of accusations of being a “manipulative” approach that enables researchers to speculate on the meaning of obtained data according to personal agenda and judgements (Morgan & Smircich, 1980). Of all the elements and processes of qualitative research in marketing, data analysis is considered to be the “Achilles’ heel” of the approach and one of the most sensitive moments of qualitative research (Gummesson, 2005). However, according to Gummesson (2005), the very term “analysis” is not really applicable in

qualitative research since it implies reliance on the pre-established formulas, processes and designs to the phenomena that are not precisely defined or sufficiently explored. As Morgan & Smicich (1980) noted, even quantitative research encounters the challenge of potential “manipulative” interpretation of statistical analysis outcomes, as researchers have to assign the meaning to the insights obtained based on their own understanding of their connotation for the given measure, research moment and research subject.

Furthermore, the challenge of qualitative research is also in the form used to illustrate the knowledge gained from the qualitative inquiry: “Simply put, how can words fully express the meaning inherent in our observations, personal interviews and pictures when so much of it is subtle, hidden and contextually bound?” (Black, 2006, p. 319). The effort to compress the massive volumes of qualitative data into several lines of written text that has to be illustrative, descriptive, explanatory and theory-inducing at once is the challenge of authenticity and plausibility qualitative researchers always encounter when making their findings presentable to audiences (Black, 2006). The problem of narrative strategies in qualitative research representation is one of the biggest trials in qualitative research (Hogg & Maclaren, 2008). As Black (2006) noted, there is always a challenge to transform the obtained insights into the shape of research findings, while being alert at all times of not compromising the meaning of data and losing their specificity to the temptations of generalization.

Finally, the assignment of validity and reliability to qualitative research findings has been a subject of numerous debates among academics (Lincoln & Guba, 1985). Although debate over measuring the value of qualitative research is outside the scope of this paper, we are providing a brief reference to these underlying challenges of qualitative research. The challenge of justifying the worth of qualitative research and the truthfulness of its findings has been somewhat tackled by the proposition to implement the criteria of soundness tailored specifically to the particularities of qualitative research, which include credibility, transferability, dependability, and conformability (Lincoln & Guba, 1985). However, academic community still questions the aspects of innate context-attachment of qualitative research findings to the circumstances of research execution for their validity in differing conditions (De Ruyter & Scholl, 1998). The challenge of reproducing qualitative research insights and replication of findings is often linked to the question of the reliability of qualitative research. However, DeRuyter & Scholl (1998) argued that the reliability of qualitative research can be reached through “systematic operation at the level of research design”, the unyielding awareness and reference to the existing theoretical research models and concepts, and the detailed account of the research steps undertaken for future reference of the interests for replication.

### **Researcher’s Experience in Applying Qualitative Methodology in Bank Marketing Research**

Having reviewed major challenges qualitative research encounters on the journey of knowledge building and theory development in marketing, we further review some of the practical challenges encountered when conducting qualitative research in marketing. Interpretivist approach and implementation of qualitative research methodologies have been encountered in numerous academic works in the field of relationship marketing, especially within the context of financial services

marketing (Kapoulas et al, 2002; Kapoulas et al, 2004; O'Loughlin et al, 2004; Argyriou et al, 2005; Stone, 2009). Common rationale for interpretivist orientation in these studies included the desire to explore the identified phenomena of relationship marketing, e-banking and online communications in-depth, focusing on the particularities of the context-bounded practices and the need to provide more exploratory and explanatory elaborations on the phenomena in the under-researched areas (Kapoulas et al, 2002; Kapoulas et al, 2004; O'Loughlin et al, 2004; Argyriou et al, 2005; Stone, 2009). The most preferred qualitative method common for these studies included the conduct of comparative case studies and interviews, under the rationale of obtaining rich and detailed insights into the dynamics of organizational and professional understanding of and attitudes towards the studied phenomena. Although each of these studies could undoubtedly offer interesting and valuable insights into the processes, reasoning and challenges of conducting qualitative research in the field of financial services marketing, the scope of this paper does not permit detailed analysis and projection of the experiences of these studies. Rather, we wish to provide a first-hand insight on the practical side of performing qualitative research in marketing by reflecting on the personal experiences embedded in the work by Kapoulas et al (2002, 2004) and Kapoulas (2003), when embarking on the road of knowledge building through qualitative methods.

Based on the personal researcher's insights, one of the greatest practical challenges in conducting qualitative research on the subject of relationship marketing and e-banking in the environment of electronic media networks was obtaining the access to banking organizations and granting their collaboration (Kapoulas, 2003). Overcoming organizational skepticism towards inductive in-depth interview method was a great challenge, due to the understandable fears of the loss of competitive intelligence in the industry operating under harsh customer share rivalry (Kapoulas, 2003). Researcher encountered a challenge of defending the ethical principles of the qualitative methods of interviews and case studies, and the reassurance of the purely academic and theoretical interests in the practices of addressed organizations. Such challenges are common in the qualitative research inquiry, since the inevitability of researcher's inquisitiveness in closed-public organizational practices, researcher's immediate presence in the processes of information generation and direct reliance on the personal insights and opinions of the organization's representatives are reality of qualitative research in marketing and in other organizational disciplines (Gummesson, 2000; Silverman, 2004; Silverman, 2005; Wengraf, 2001). Similarly, the real-life aspect of research through interviewing and case study documentation collection was also abundant in challenges including practical issues of time constraints, documentation confidentiality, and also the rapid changes within the staffing structures of participating organizations (Kapoulas, 2003).

Furthermore, one of the notable challenges encountered in this particular research was the attempt to incorporate online technologies in the qualitative methods of data collection to reflect on the customer aspect of the practices in the industry (Kapoulas, 2003). The original idea was based on devising qualitative open-ended online questionnaires addressing customer attitudes and feelings towards bank practices for the purpose of obtaining direct and original customer reasoning on the issues raised by the study. The questions of the method's reliability and validity emerged as a

challenge to justify the soundness of that particular method for the purposes of the study, especially considering the lack of references to the identical endeavors in other academic research efforts in the industry in the past (Kapoulas, 2003). Other challenging questions included the truthfulness of anonymously and impersonally obtained online customer data, the volume of such data, the implications for further generalizations of insights and the cautions over avoiding biased content and structure of the online questionnaire itself (Kapoulas, 2003). Researcher's determination to pursue the envisioned path helped overcoming these challenges, which was gradually achieved through consultations with the literature and other academics and thorough perpetual revisions of method execution (questionnaire online distribution and content) (Kapoulas, 2003). Nevertheless, the careful preparations could not account for the unexpected fatal challenges of the actual execution, including chiefly low participation rate among online customers and damage to research integrity by the interference of the unauthorized external impeding forces in the online space (hacks). The researcher acknowledged the defeat to these practical challenges of conducting qualitative research, but did not lose faith in the interpretivism and ultimately re-assembled the failed method into a more common and functional form of direct focus groups, which ultimately led to success (Kapoulas, 2003).

The lessons learned from this overview of practical experiences when driving on a bumpy road of qualitative research are that thorough practical preparations to research supported by theoretical insights and advice are crucial in facing and readily overcoming the challenges characteristic for qualitative inquiry (Kapoulas, 2003). Judging from the personal experience, the researcher urges enthusiasts of qualitative methodology to implement to increase the credibility and trustworthiness of the findings through triangulation of methods (even if these methods are all of qualitative nature as was the researcher's choice: the researcher used multiple case studies, interviews, and focus groups to provide "checks and balances" to research findings) (Miles & Huberman, 1994). Authors also advice new researchers to incorporate the answers to 20 questions to qualitative research by Marshall and Rossman (2006) so as to ensure the credibility of research and to enjoy the interpretivist odyssey without delays and angered seas. Finally, patience and persistence are also the key virtues authors of this paper would recommend new researchers to armor with when conquering the adventurous roads of qualitative research on the voyage through interpretivist quest in marketing.

## **Concluding Remarks**

Having reviewed the literature on the history of marketing theory and visited the debate of paradigm shift, the authors conclude that the crucial decision for researchers in marketing should not be reached on the desire to comply with the dominant research paradigm in the discipline, but should be rather based on the value of insights obtained via selected research methodologies. Qualitative research methodology faces numerous loopholes in justifying the value and significance of its contributions in academics. However, instead of being discarded as a compelling path to knowledge building, qualitative research should be understood better in all its imperfections and challenges, and these should be put to good use in guiding new qualitative efforts towards academic excellence and in finding new strengths in building arguments for qualitative research. Additionally, authors stress

the importance of having patience, persistence, and strong determination and will-power for obtaining the sought knowledge as a major strategy for addressing the practical challenges of qualitative research execution.

## Biography

**Dr Kapoulas** joined CITY College team on September 2007 as Lecturer in Marketing for 1 year and soon he was appointed to Academic Director of Postgraduate Studies. Before joining CITY College he was the Division Leader in Business Courses in North College a partner college of the University Of Huddersfield, UK. He has also been part-time lecturer for five years in the Derbyshire Business School University of Derby, UK where he taught on marketing and management modules at all levels. He has won the best paper prize in the Financial Services Marketing stream at the Academy of Marketing Conference, findings from his research have been published in the International Journal of Bank Marketing and the Journal of Customer Behaviour. He has also published on various Academy of Marketing and EuroMed Conferences.

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## NEW CONSUMER ROLE IN BRAND COMMUNITY: FROM ATTRACTIVENESS TO AN ACTIVE MEMBER AND EMBEDDED LEARNING

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### Abstract

This conceptual paper aims to provide a contribution to advancing knowledge on the more recent phenomenon of social brand community. Three interrelated and consecutively developed conceptualizations resulting from a co-operation of the researchers over the last three years are presented to explain the influence of the evolution of current social trends on the relationship between consumers and brands in different contexts (socio-demographic aspects and culture). The increasing role that the brand plays in the socialization system is highlighted.

The paper is based on an extensive interdisciplinary literature review in areas such as sociology, management, and marketing. The conceptualizations have been applied to a previously researched qualitative case study on Cypriot consumers, which conducted in-depth expert interviews and focus groups. The research project has been designed in three stages: the first stage elicited the nature of relationships between consumer, brands and social groups; the second stage was concerned with differentiating consumer behaviour and segmentation patterns in the various stages; finally, the last one conceptualized the influence of culture on the brand-consumer relationship and benefited from a progressive knowledge of the researchers in the field of embedded learning and human branding.

The first conceptualization (Siano and Basile, 2009) explains the various stages of the evolution of the relationship between the consumer and the brand. The second conceptualization proposes a new segmentation and categorization pattern of brand consumers and their respective behaviors derived from the different stages of the consumer-brand relationship development (Siano and Basile, 2009; Siano, Kaufmann, Basile, 2009). The third conceptualization has been developed from the findings of an exploratory study on Cypriot brand related consumer behavior (Kitsios and Kaufmann, 2009), which had expanded the previous two conceptualizations by integrating cultural aspects. Beyond that, the third conceptualization integrates the influence of embedded learning and stimulant experience on the consumer-brand relationship.

Whereas the focus of the research paper was on conceptualization, the results of the study provide academic and practical suggestions for segmentation and corporate branding strategies in order to develop and strengthen the relationship between brand and consumer. For example, the importance of the opinion leader in the brand community building and marketing mix suggestions to leverage embedded learning are provided.

Based on the description of the chronological evolution of the relationship between consumer, brand/firm and social groups an innovative and holistic conceptual framework net consisting of three conceptualizations is provided differentiating consumer roles by the strength of the relationship to the brand and by cultures. The paper provides innovative knowledge on a new quality, even new paradigm, of consumer-brand-social group relations leading to new arising segmentation patterns and socially responsible marketing.

**Keywords:** brand community, social identity, symbolic consumption, Cyprus, embedded learning

## Introduction

The brand relationship concept (e.g. Fournier, 1998; McAlexander et al., 2002; Parvatiyar and Sheth, 2001; Webster, 1992), originates in person-to-person relationships as studied in personality research and social psychology. A relationship involves a reciprocal exchange, consists of a series of repeated actions, and perceived commitment between partners. So, a relationship provides possible benefits for its participants, who are, therefore, willing to continue a relationship (Smit et al., 2007). As consumers tend to think of brands as having a soul or human characteristics and being associated with human qualities, people may interact with them in ways that parallel social relationships (Aggarwal, 2004). This mutual attractiveness and commitment between a group of consumers and a brand led to the recent phenomenon of brand community creation. Muniz and O'Guinn (2001, p. 412) have defined a brand community as "a specialized, non-geographically bound community, based on a structured set of social relations among admirers of a brand".

This research innovatively explains brand community evolution by a conceptual framework, which explains different developmental stages of the relationship between consumer and a brand. In this respect, the purpose of the present research is to provide new and meaningful insights on the consumer-brand relationship triggered by social trends that determine changes of consumer behavior related to the brand implying a central role that brand plays in the socialization system.

## Attractiveness between Consumer and Brand

Early discussions about the way consumers feel about brands focused mainly on the concept of brand personality and brand building (Vrontis 1998; Papasolomou and Vrontis 2007; Vrontis and Paliwoda 2008; Demetriou et al. 2010). Plummer (1985, p. 81) portrays those consumers having a high level of identification with their favorite brand saying: "I see myself in that brand and that brand in

myself". Hence, if the consumer-brand interactions go beyond attractiveness and embed social identification a community committed with the brand can be generated.

Consumer behavior researchers broadly allude to the interaction between the consumer's inner self and the product, or even the brand. In this way, consumers tend to seek symbolic and hedonic benefits, understood as a connotation of self-esteem and image towards other consumers, above merely functional and utilitarian benefits (Schlenker, 1986; Brewer and Gardner, 1996; Carroll and Ahuvia, 2006). This is reflected in the brand being positioned through integrated marketing communication and other elements of the marketing mix, which concertedly convey brand identity and personality. Latter are perceived by consumers in ways which are coherent with their self-images or inner-self, and their functional, symbolic and emotional/experiential needs. Then, the firms can follow up the consumers' perceptions of the brand and rectify any potentially existing gaps with consumers' perceptions, or reinforce its inputs along the aspects, which are more relevant to consumers (De Chernatony and Dall'Omo Riley, 1998).

It becomes apparent that the consumer evolves, due to the relationship building role of the brand, from being a passive subject in marketing, resulting from stimulation of mere commercial transactions, to being an active and, even more, interactive subject in the context of relations with the firm. In the context of this evolving relationship building process between firm and consumer, the brand no longer represents a simple "name, term, sign, symbol or design or a combination of them" (Kotler and Keller 2006, p.256), but rather, a partner of the relationship with the consumer, to the extent of playing an essential role in the dyadic condition of the relationship (Keller, 1993; Fournier, 1998). The humanization of the brand, invoking values, cognitive characteristics, and social emotions lead the consumer to recognize these features in her/his inner-self and to perceive her/himself as a partner (Granovetter, 1985; Rao, et al., 2000).

In this context, it might be interesting to contrast the concepts of brand image and brand relationships. A brand can be seen as a combination of perceptions regarding information, values, and emotions held in a consumer's mind (Keller, 1993), as an image in the consumer memory. The concept of brand relationships, however, is different from the concept of brand image, since the former is the expression of reciprocal changes and social adaptation, both for the firm and the consumer (Sirgy, 1982; Holt, 1995). So, we can argue that the concept of relational reciprocity is the *conditio sine qua non* to reveal the dyadic nature of the consumer-brand relationship.

Thus, the dyadic consumer-brand relationship expresses the conditions in which the consumer, in the phase of observation and valuation, perceives the brand as a transmitter and a transducer of information, values and emotions. In this phase, the consumer, in the constant search for personal identity, assumes the status of an evaluator and browser of the brands that compose the market, in order to identify the brand or brands capable of expressing a language in line with the benefits sought by the individual. The meeting point between the searching individual and the brand is characterized by a phase of compatibility, in effect a common language which signals reaching a condition of consonance of identity.

## Identification Among Consumer, Social Group, and Brand

The attractiveness process can drive the consumer to a mechanism of identification with the group, tribe, or community, which is built on the basis of a shared passion and/or emotion (Maffesoli, 2004; Carroll e Ahuvia, 2006).

In this phase, the brand widens its function, evolving from being a partner to the individual/consumer in the identity/self-concept phase into being the marketplace around which and by means of which groups are created and evolve, concluding in social identification for the individual (Bhattacharya and Sen, 2003). Now, the identification mechanism of an individual consumer and a group expresses the degree of perception of self, both, as an individual and as a member of the group, in relationship with other group members and with the firm/brand. This next evolutionary perceptual step is developed on the basis of sharing the relevance, functional or symbolic specific features of the product/brand with other members, based on the process of idolizing individuals considered to be opinion leaders (Dutton and Celia, 1994).

This condition, therefore, satisfies the double need of the individuals to develop their self-concept and their identification with the social group of belonging (Mael and Ashforth, 1992). Here, the concept of brand love arises, which is defined as “the degree of passionate emotional attachment a satisfied consumer has for a particular trade name” (Carroll e Ahuvia, 2006, p.81). Brand love includes passion for the brand, attachment to the brand, positive evaluation of the brand, positive emotions in response to the brand, and declarations of love for the brand (Ahuvia, 2005). These emotional ties among the group members can lead to a strong brand community. Examples are provided by the numerous communities which arouse around specific models of cars or motorbikes, such as Mini, Harley Davidson and others (Robertson, 2007).

The phenomenon of identification derived from social identity theory represents the evolution of consumer-brand relationship from a dyadic one to a triadic one (individual/consumer-brand-individual/consumer/ member of a social group).

In this context, the social group or brand community can be interpreted as a social aggregation of members, the expression of a specific cultural capital and their relationships based on the brand considered a warehouse of meaning (Maffesoli, 2004).

Each consumer needs to feel psychologically linked to the destiny of the group, find distinctive brand values, and specific group practices to achieve identification. This state happens when a consumer idolizes an opinion leader (a famous person who evokes the distinctiveness of the brand, or an individual to be attracted to a social group) or is attracted by a brand (one thinks of the frequent cases of *retro-marketing*, in which products re-evoked a deeply rooted background, as is the case with the Fiat 500, the Mini Cooper, the VW Beetle, Chuck Taylor All Star sneakers, and others (Brown, Kozinets and Sherry, 2003). In all these cases the individual expresses the characteristics of an emulator or *mingler*.

## Resonance through Commitment

The dynamics described before, other than the state of attractiveness and the sense of belonging (identification) to the group, cause the individual consumer to feel a state of obligation or commitment, a rooted interest and a sharing of objectives, as much with the group as with the business, and, in this way, to seek to contribute to the success of the group: this condition of relationship can be defined as resonance.

The condition of resonance represents the evolution of the relationship among an individual consumer, members of a social group, and the brand. The individual consumer is a member of a system in which commitment is a dominant factor, and in the ambit of the group a strong awareness of belonging and a respective sense of moral responsibility in their dealings with the group and with single members develops, so much so that they put into place suitable behaviour towards reaching the objectives of the group and/or the business (see Figure 1). In a brand community a consciousness of kind, shared rituals and traditions and moral responsibility exist among their members. Rituals and traditions function to maintain the culture of the community.

The condition of resonance depends on continuity and proactive attitudes due to the frequency of the relationships and the quality of exchange of emotive as well as cognitive information. Furthermore, when reaching this condition a progressive development is put into action, which allows the gradual blurring of boundaries between firm and consumer, as shown in Figure 1. Consequently, achieving this state of resonance is the expression of reaching ever greater levels of sharing and trusting on trends and perspectives (McAlexander, et al., 2002; Ahearne, et al., 2005).

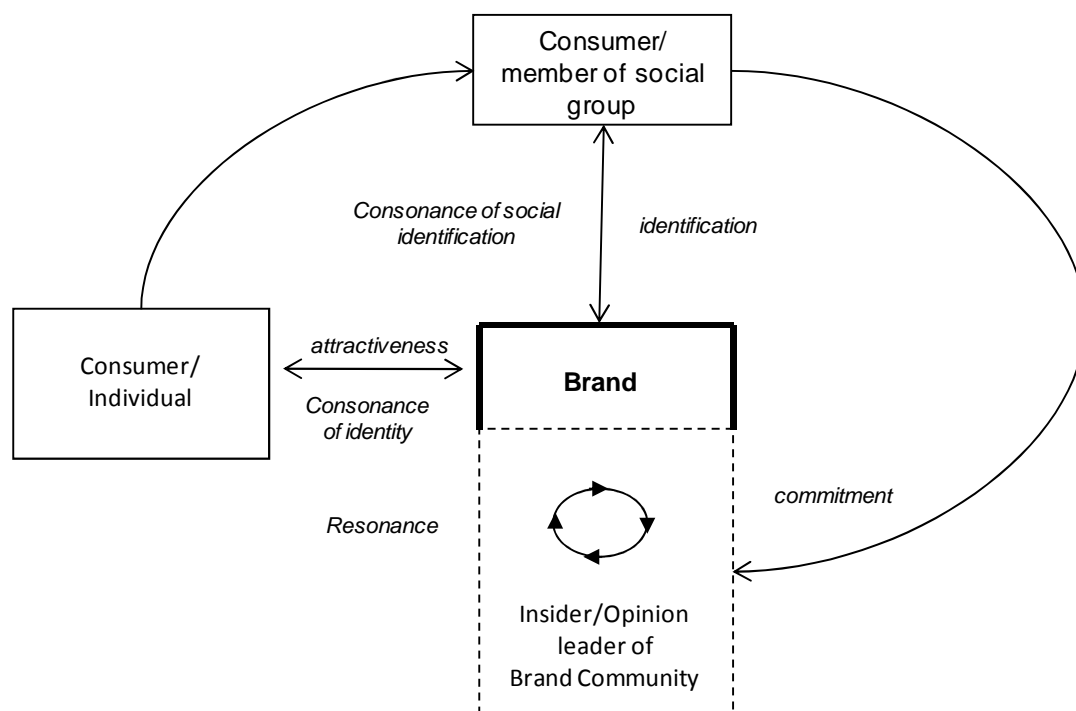


Figure 1: Conditions of Resonance

Source: Siano and Basile (2009)

Implying a new marketing paradigm, such display of behaviour by consumers represents a net change in the role of firm/brand which, from the pole of the relationship with the consumer, evolves into support for the links/relationship between consumers.

The consumer/member, being aware that the firm/brand can help in the building of a social identity, shares the goals of the firm and even participates in decision making concerning products and communication.

The case of Ducati, for instance, saw the firm proposing a new model of a motorcycle with a single disc brake. However, the members of the community opposed the plan and had the entire braking system changed to dual disc brakes.

This participation, which often materializes as extreme loyalty on the part of the consumer towards the entire business organization, finds effective representation in the willingness to accept new products or a brand extension, and furthermore, to introduce new members into the community and to support and sustain the firm in moments of crisis. In this way, the consumer tends to serve as a brand missionary attracting and captivating new members.

From the moment in which the consumer becomes an active member/insider of the brand community, the latter, by effect of the two step flow theory, becomes an efficacious sounding board of the firm/brand. In other words, it becomes a spontaneous communication tool activating word of mouth, both on and offline, encouraging new “fans” or, even, defending the reputation of the brand from judgement on the part of members of communities of brand competitors. Thus, brand community members provide important feedback to the firm about the brand’s authenticity.

In this situation, the consumer sees her/his position evolving from a simple member or mingler, having joined a social group, to a molecular opinion leader to insider (Katz and Lazarsfeld, 1955; Kingdon, 1970; Confetto, 2005). The social evolution of the consumer /individual, from browser to opinion leader, is summarized and illustrated in Figure 2

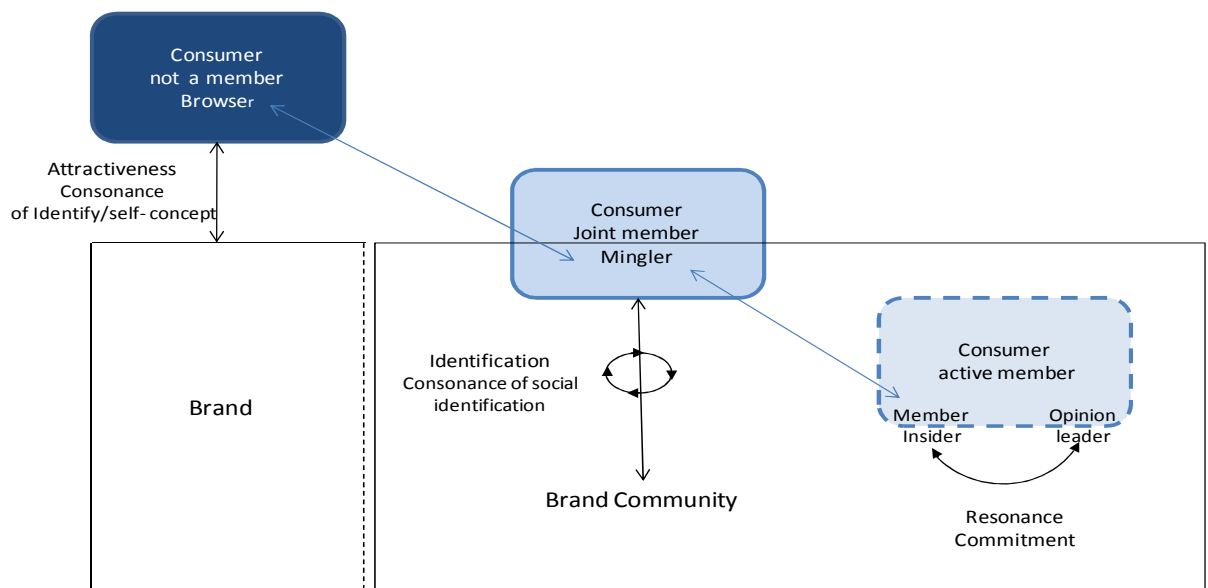


Figure 2: Social Consumer Evolution

New technologies also contribute to proliferation of the community brand. Interestingly, a tool, initially blamed for causing the alienation/isolation of the individual, is proving to be a space or “territory” on which to create the community (Algesheimer, et al, 2005). In such virtual communities the consumers are not the co-creators of brand meanings, but the creators themselves, using message boards, blogs, articles, reviews and other mechanisms. The Internet works as a catalyst for building and nurturing the community.

The social aspect of the consumers in their relationship with the brand, the spontaneous growth of social groups and the role of the consumer within these groups are increasingly becoming the centre of attention for researchers and practitioners, who seek to adjust the planning of marketing and communication towards a less traditional, “murk” or “non conventional” approach (Muniz and O’Guinn, 2001; Bagozzi and Dholakia, 2006).

### Culture Influence on Social Consumer Evolution

Culture has been defined as the interactive aggregate of common characteristics that influence a group's response to its environment (Hofstede, 1980), or as the collective programming of the mind which distinguishes the members of one group or category of people from another (Hofstede, 1997). Lustig and Koester (1999) state that individualism/collectivism is the main category to differentiate culture, which emphasizes conflicting views on the nature of humans and society and the underpinning relationships. Samovar and Porter (2001) points to the applicability of branding in both, individualistic and collectivistic cultures. Whereas, in an individualistic culture, people are symbolized by numerous features believing that they are unique in society and, hence, emphasizing personal preference and competition rather than a co-operative social setting, the needs, views, objectives and, even emotions of the people in a collectivistic culture are conditioned by the group. Thereby, in individualistic cultures, branding might account for individual preferences by segment specific life style positioning and, in collectivistic cultures the consumption of well known brands



might be regarded as constituting a group norm. Nicholls et al. (1997) show that a collectivist subculture (Hispanic consumers in the United States) tends to be more susceptible to social influence than an individualistic subculture (Anglo-Saxon consumers in the United States).

An exploratory case study carried out in Cyprus, investigating the underlying reasons governing consumer behavior of Cypriot consumers as to branding (Kitsios and Kaufmann, 2009) found that lifestyle which people would like to have is a very important determinant of the buying behavior of Cypriots rather than an underlying common passion for the brand and its embodied values, as Maffesoli (2004) or Cova (2002) had stated. This study also stresses that age plays an important role as to the extent of adaptive status orientation. Reflecting on and applying Figure 2, Cypriot consumers can be perceived as emulators/minglers. Importantly, the aforementioned research on Cypriot consumers found that the stage of resonance is not achieved due to a lack of psychological link with the desired social group which would be based on common values, obligation or commitment, a rooted interest and a sharing of objectives. Consequently, the sustainability of this newly created identity might be questioned as it is not based on the change of a value system or moral growth.

In Cyprus, the consumer behavior seems to reflect a high degree of collectivism, which is in line with the emphasis on the personalization aspect and the strong normative character of comparative and/or identification groups. Consumers seem to feel conditioned in their brand consumer behavior in order not to be considered to be different. The statements imply that Cyprus might be considered to emphasize personalization as a reflection of a being orientated culture rather than de-personalization as a characteristic of a doing orientated culture (Usunier and Lee, 2005).

In addition, Hofstede and Hofstede (2005) mention other cultural dimensions like: masculinity/femininity, power distance, uncertainty avoidance, long-term/short-term orientation.

Power distance is related to the extent to which a culture fosters social inequality. Cultures that are high in power distance tend to emphasize prestige and family income in shaping vertical relationships between social-economic classes (Hofstede 1984). Consumers in high-power-distance cultures are more attached to the social brand images (brand name is important) (Bristow and Asquith 1999; Roth, 1995). However, when power distance is high, consumers also tend to “distrust” authority (Hofstede 1980).

Another cultural dimension, uncertainty avoidance refers to the extent to which consumers feel threatened by ambiguous or less certain situations and create beliefs and institutions that tries to avoid them adopting strict codes of behavior and a belief in absolute truths (Hofstede, 1984). Consequently, consumers in cultures that are high in uncertainty avoidance tend to favor credible and consistent brands (Dawar and Parker 1994). Erdem et al. (2006) also find that collectivism and uncertainty avoidance amplified the brand credibility effects, in other words, the notion that collectivist consumers perceive credible brands as better quality and prefer them because they reinforce their belongingness to the group.

With regards to the culture dimension of masculinity/femininity, the masculine culture uses the biological existence of the two genders to define the social roles. Men is expected to be “assertive, ambitious, and competitive, to strive for material success, and to respect whatever is big, strong, and fast” (Hofstede, 1984, p.390). Women, however, are expected to serve and care for the non-material quality of life, for children, and for the weak.

### **Embedded Learning and Stimulant Experience**

Moreover, Algesheimer et al. (2005) reveals that the impact of brand relationship quality on community identification suggests that it is more effective for a firm to solicit and enroll its existing, long-tenured customers who already have an affirmative relationship with the brand. So, brand community membership is more useful as a customer retention device than as a customer acquisition tool. This study also suggests that brand community’s social influence is accentuated more for knowledgeable consumers than for novice consumers. Consumers who are knowledgeable about the brand experience higher levels of identification, engagement, and pressure than novice consumers.

Summarizing, the three conditions of the relationship between individual and brand (attractiveness, identification, commitment and resonance), the different stages of the relationship evolution and, therefore, different target segments (browser, mingler and insider/opinion leader), and the influence of cultural dimensions, focusing on collectivism/individualism and socio-demographic factors, resulted in the final conceptual framework presented in figure 3. The authors postulate that promoting the image of the opinion leader (a person known in a social community by her/his profession or social position), whose perceived identity is congruent with those of the consumers’ and the brand, can significantly reinforce the consumer identification with the brand. This can reinforce the credibility of the brand and contributes to a higher level of brand awareness and brand image. Moreover, increasing the brand knowledge reinforces the need to belong to a brand community and to be loyal. Consumers who are fans of the opinion leader are more likely to adhere to a brand community, especially in a collectivist culture (see figure 3). For this reason, the authors introduce the embedded learning concept, meaning that social brand knowledge, the relationship between firm, consumers and brand as well as the improvement of the brand credibility can generate a process of addictive learning that drives a continuing need to know more on the brand and the community of belonging.

The stimulant experience within the members of networking community (e.g. firm, employees, opinion leader, other members) activate high levels of arousal, which then leads to pleasure, which in turn leads to a delightful feeling that needs to be fed back (it would be good if we would have sources for that statement).

As Merz, He, and Vargo (2009, p. 331) point out, we are living in the era of the brand as dynamic and social process and so “the brand value co-creation process is a continuous, social, and highly dynamic and interactive process between the firm, the brand, and all stakeholders”.

The opinion leader could be a celebrity, a human brand that can use her/his name as a brand or any well-known person who is the subject of marketing communications efforts. “Human brands that make consumers feel appreciated, empowered, and understood succeed in creating feelings of autonomy” Similarly, feelings of relatedness are likely to be produced when a human brand promotes acceptance, openness, and belonging” (Thompson, 2006, p.116). Thompson (2006, p. 105) also highlights that the strength of the attractiveness between a human brand and a consumers, without suppress feelings of competence, lies in the consumer's feelings of autonomy and relatedness, and so “attachment strength may be a parsimonious proxy for consumer-brand relationship strength”.

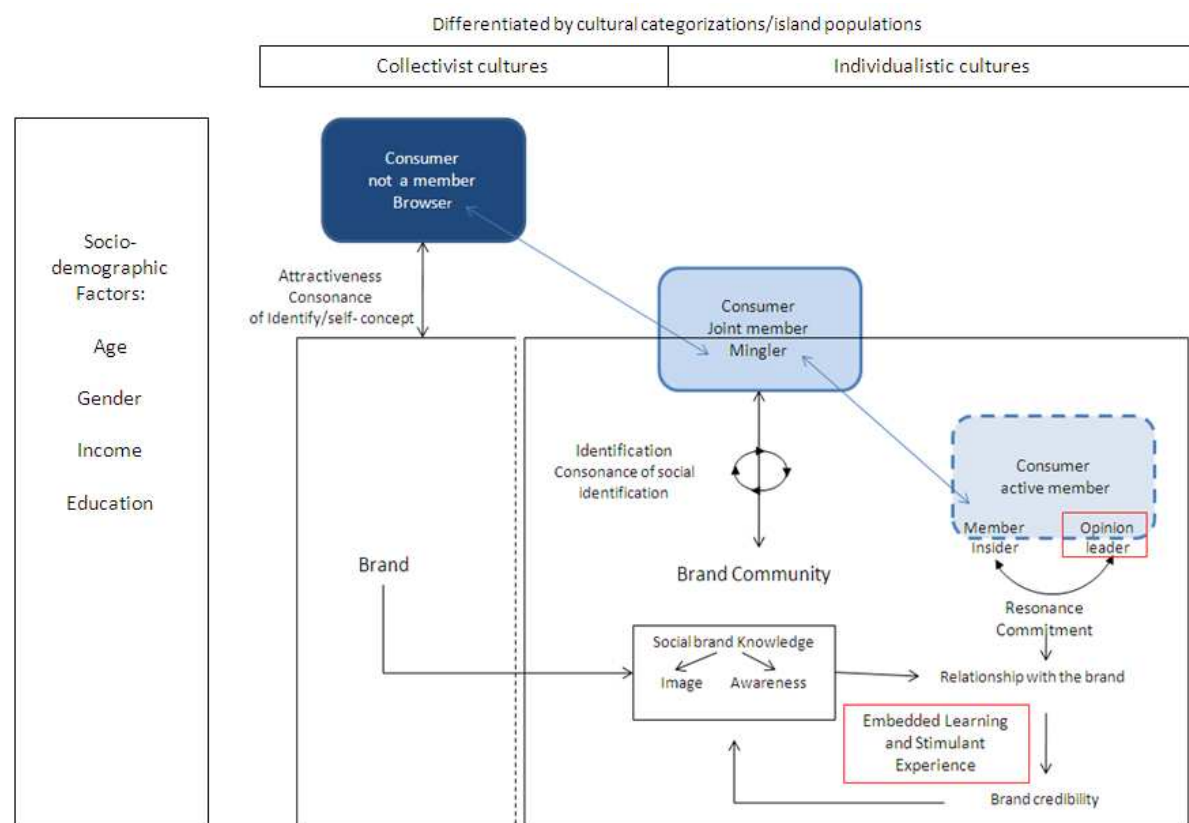


Figure 3: Conceptual Framework Social Consumer Evolution, Embedded Learning and Stimulant Experience

## Conclusions

This paper illustrates the perspective that firms should create and stimulate interaction, both informatively and emotively, with the individual consumer and members of the community, to develop real networking-based behaviour. The conceptual frameworks proposed evoke the firm's need to assimilate and to reflect the system of values, norms, and artefacts of a society, in the continued interaction with the individual. This can be facilitated through the image of the opinion leader, especially in a collectivist culture, if he or she belongs to a group or social status that consumer wants to be connected to. The dynamic process of reinforcing the credibility of the brand can strengthen the brand community and the consumer loyalty. The changing paradigm of marketing

relating to the congruence of consumer and brand identity, and, implicitly to the increasing social needs of consumers underline the importance for firms to act socially responsible and to choose socially responsible opinion leaders.

Practical implications for corporate brand strategies refer primarily to position the family and/or individual brand highly based on image, status and, in tendency, high price. TV advertising is recommended due to its high level of intimacy penetration and status perception. Another preferable promotional mix element to be suggested refers to event marketing, as fashion shows, executive parties and, most importantly, charity events can provide stimulant experience. The use of socially responsible testimonials representing the desired social identity is also recommended.

In conclusions, the conceptual frameworks proposed here are suggested for empirical validation in cross-national research settings in order to better analyze the differences among the culture dimensions.

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## IMPROVED INTERNAL CORPORATE COMMUNICATIONS: A PRACTICE-BASED THEORETICAL CONCEPTUALIZATION

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### **Abstract**

This paper aims to examine and suggest frameworks for managing communications and for managing firm-stakeholder interactions, as opposed to a more grounded and detailed understanding of the practices of branding and communications professionals and how these may make a difference in the management of firm-stakeholder relationships. Such an understanding is, particularly important given the rift between the importance placed by CEO's and senior executives upon strategic corporate communications (CC), that is, linking communications activities with the overall corporate strategy and objectives of the firm, and their views that there is a huge under-performance in the communications profession in the US, the UK and continental Europe because of a lack of qualified personnel and a limited understanding of what communication practices actually make a difference (Argenti et al. , 2005; Murray and White, 2004; Van der Jagt, 2005).

A secondary research analysis is used into practices (responsibilities, roles and activities) of communications professionals in four corporations (Siemens, Nokia, Shell and Philips) that have had consistently strong and glowing reputations over the past years, despite market setbacks and negative coverage in the media. The overall aim here was to elicit and conceptualize in more detail the activities and issues that define CC as a public relation function in practice.

This extended conceptualization is based upon a view of CC as a 'practice', which focuses upon how practitioners engage in the doing the 'real work' (Cook and Brown, 1999) - a view that, I hope, will stimulate conceptual debate and empirical research and offer a more informed basis for practitioners to make sense of their professional realities and act upon it.

**Keywords:** Corporate Communication, Public Relations Function, Stakeholder Relationships, Communication Practices

### **Introduction**

There is a widespread belief in the professional world that in today's society the future of any company depends critically on how it is viewed by key stakeholders such as shareholders and investors, customers and consumers, employees, and members of the community in which the company resides. Public activism, globalization and recent accounting scandals have further strengthened this belief; and have also brought the importance of strategic communications management into closer orbit. Not surprisingly, therefore, both the academic and professional worlds

have been suggesting frameworks and models that prescribe steps towards the 'strategic' use of communications including such ideas as 'integrated marketing communications' (Kitchen and Schultz, 1999), 'corporate identity management' (Van Riel and Balmer, 1997), 'reputation management' (Fombrun, 1996), 'stakeholder communications' (Christensen and Cheney, 1994) and 'excellent public relations' (Grunig and Grunig, 1998).

According to writers Ewen (1996) and Cutlip (1995) the professional discipline of public relations (PR) - communication activities undertaken by an organization to inform, persuade or otherwise relate to individuals and groups in its outside environment - developed itself, expanding in its scope and activities, because of public skepticism, political reform, turmoil and activism throughout the 20th century. In PR's early days as a discipline, at the height of the Industrial Revolution, power was largely concentrated with big businesses, although the balance has since then shifted towards powerful groups in society including governments, trade unions, investors and stockholders (Broom et al., 1991).

In response to the increased saliency and power of such groups, new areas of expertise such as investor relations, public affairs, issues management and employee communications were added to the existing specialties of media relations and publicity, and PR gradually developed into a full-fledged 'managerial discipline' in the early 1970s (Olasky, 1987). The 'managerial discipline' of PR has since then, as writers Van Riel (1995) and Cornelissen (2004) have documented, evolved into the 'managerial function' of CC. The fundamental contrast being that under CC communications activities and specialties (e.g. media relations, government relations, employee communications, community relations, advertising, investor relations, corporate design and issues management) have been increasingly taken together and consolidated into one or a few units or departments and, importantly, these activities are increasingly given shape and coordinated from the strategic interests of the organization as a whole. Van Riel (1995) for example suggests in this regard that CC as a managerial function is 'an instrument of management by means of which all consciously used forms of internal and external communication are harmonized as effectively and efficiently as possible', with the overall objective of creating 'a favorable basis for relationships with groups upon which the company is dependent'.

The evolution of PR into CC and its recognition as a managerial function is furthermore documented in the relatively high position of communications managers and departments (e.g. 'Corporate communications', 'Public Affairs' or 'Corporate affairs') within organizations' hierarchical structures (Cornelissen, 2004), the rise of a new 'style' more business savvy 'corporate communications' manager (Freeman, 1984; Harris and Bryant, 1986; Marion, 1998), and the widespread adoption of the CC vocabulary of 'stakeholders', 'identity' and 'reputation' (Argenti, 1996; Van Riel, 1997).

For example, a recent survey of Fortune 500 companies found that rather than using PR terminology around publics (i.e. people who mobilize themselves against an organization on the basis



of some common issue or concern to them), managing 'reputations' with stakeholders is nowadays considered the lead philosophy among communication departments (Hutton et al. , 2001).

## Political and Cultural Issues

This is not to say, of course, that the communications director should not have a seat on the executive board and should remain in this advisory capacity, but many studies did show the current impediments to such a move. On the one hand, there is still a considerable lack of understanding and a lack of commitment to communications among senior managers. On the other hand, many senior communication practitioners often do not meet the needs of senior managers to provide communications advice and an input into corporate strategy in ways that contribute to the accomplishment of organizational objectives and that affect the bottom line.

In other words, strategic corporate communications stands or falls with highly qualified input from the communication practitioner at the decision-making table; and only then will there be such a receptive environment for that contribution. The practitioner therefore needs to produce strategically focused recommendations for strategic corporate action; bringing to the attention of top managers a broad understanding of the strategic management process and of those issues that may affect and impact upon a company's reputation (Cornelissen, 2004; Cropp and Pincus, 2001). Otherwise, communications will be seen as a largely tactical or 'functionary' activity; in which practitioners are considered 'communications technicians'. Grunig et al. (2002) have argued that for many firms, the strategic potential of CC in its boundary-spanning role appears to go largely unrealized.

This is the case, Grunig et al. (2002) argue, as senior management equally tends to treat communications largely as a tactical function, concerned primarily with the technical gathering of information and with carrying out publicity and promotion campaigns to external audiences.

## Methodology

This research uses a case study approach to assess the improved internal corporate communications in four firms. Adams and Schvaneveldt (1997) define the case study approach as "an in-depth study of one or a limited number of cases in which each case is treated as a whole". The authors further added, "The case study approach is particularly helpful when deeper understanding is needed and when there is little concern about generalizing to a large population" (Adams & Schvaneveldt, 1997).

These case studies were conducted with four European corporations with strong reputations with their stakeholders and the marketplace: Nokia, Shell, Phillips and Siemens. These four corporations were selected chiefly for two reasons. Firstly, each of these four corporations is a multi-divisional firm operating under the same corporate umbrella. As such, they are typical of other large firms with a corporate communications (CC) presence

– as opposed to small to medium-sized enterprises (SMEs), where communications responsibilities and activities may not have evolved into one or more full-fledged functional areas, let alone into a managerial function (cf Kotler and Mindak, 1978 ).

Secondly, each of the four corporations has an excellent reputation in the eyes of their stakeholders and the general public according to ToMAC (Top of Mind Awareness of Corporate Brands) scores and reputation rankings published in recent years. The inclusion of these corporations therefore allows us to examine not only the range and kind of activities carried out within CC, but also to what extent these make a difference (given the strong reputations enjoyed by these four corporations). An analytical case-study approach was chosen as most appropriate for our theory-building purposes (Yin, 2003). It allowed us to examine CC holistically and address each of the 'practice' dimensions mentioned above. Interviews were conducted with up to four senior managers of each organization, for example, president of corporate communication and marketing communication, communication managers within divisions, and if possible, a board member who is responsible for (corporate) brand communication.

Here, a topic guide was used with topics that are relevant in the context of the practice of CC. However, the guide left enough room for the respondent to communicate his or her particular views on in what way activities and dimensions (structure, political and cultural issues, professionals) are linked and it prevented us from pre-structuring the concept of 'practice' in any way.

The topic guide consisted of the following themes: communication organization (How are communications activities and the staff responsible for them departmentalized and structured within the corporation? What organizational processes and facilities exist to support communications? What is the professional ethos and culture of communications staff and of people in other departments of the corporation?), communications work (What is the general view of people within the corporation (ie the CEO and senior managers, marketing staff, communications staff, and others) of communications and its role and contribution to the corporation?

How is decision-making concerning communications strategy organized? What does the process of communications strategy formation look like, in both corporate and market-led communications? What general activities does your job involve?) and communications professionals (What is the general profile of communications practitioners working in the corporation? How are communications staff recruited and selected? What training and development initiatives and trajectories exist for communications staff?). We analyzed the data by looking for common themes across the interviewees and four corporations and by identifying links between the dimensions of CC practice.

## **The Study's Findings**

The practice of CC was conceptualized by circumscribing in very broad terms four dimensions: (1) the roles, skills and activities of practitioners, (2) the organization of these practitioners and their work, (3) political and cultural issues that contextualize and mediate these activities, and (4) the communication and consumption of the process and products of activities performed. Throughout discussion, and in the course of the primary research with Shell, Phillips, Siemens and Nokia, I identified two central processes in the practice of CC that cut across these four dimensions, and appear to be central to the field.

The first process labeled as strategic positioning describes the ongoing efforts of communication practitioners to position themselves as credible communications managers to senior executives within the executive team and in other functions by developing staff, by finding appropriate mechanisms for coordinating work, by developing value-added activities and by communicating the contribution of CC. Underlying this process is perhaps the realization that communication practitioners need to enact managerial roles through management activities like environmental scanning, counseling and strategic planning that demonstrably add value to the corporation, and that they need to vie for an organizational arrangement that gives them a central, recognizable place in the firm from where to counsel and support senior management as well as managers in other functional areas. To illustrate, within Siemens the emphasis on corporate branding and the development of a corporate brand architecture was presented as central to the corporate strategy of the firm:

We have to influence decisions about what businesses do we invest in and brand as Siemens and what businesses we do not want to be in ... We have a clear business strategy ' go for profit and growth ', which sounds really general but behind this is an intensive and very detailed program, the Siemens management system, which our branding architecture and systems tie into. The overall corporate target is to attain worldwide leadership in each of the businesses that we are active in. Business success is the most important thing and that is driving the brand values and the brand strategy' (Director of Brand Architecture).

There is a constant concern with the strategic positioning of corporate branding and corporate communications, not just to increase and communicate the current performance but also to secure a receptive environment at the senior management table. The head of corporate communication worldwide is a close advisor of our CEO. In fact, the incoming CEO, Kleinfeld, has a doctorate on the topic of corporate identity, and has a deep understanding of branding and communications' (Vice President Corporate Brand and Design).

A second process that we identified involves what we term cultural accommodation which describes how CC, its practitioners, its organization and the general way in which it is practiced is embedded in the cultural context of the firm. Effectively, the choices made by Philips, Nokia, Shell and Siemens regarding staffing, training and development, structuring and the model of communication strategy development are all highly varied, yet linked to the core of their business, history and culture.

Such variety and cultural adaptation may point to what Gratton and Ghoshal (2005) call signature practices; practices and processes that embody a company ' s character and are therefore somewhat unique and idiosyncratic, rather than general and universal for the entire industry. Signature practices are linked with the core values of the organization and evolve from a company-specific history and are embedded in its culture and core values.

Within Philips, as mentioned, corporate communications is seen as a part of an Organization-wide technocratic engineering culture where every function and the work processes involved are documented and standardized, so that these can be constantly monitored, updated and optimized.

Work processes (e.g. media inquiries) within corporate communications have equally been documented and standardized in flow-charts and worksheets (following ISO quality specifications). This kind of signature process may not work in other companies in the consumer electronics industry (or indeed other industries) as it is tied to Philips' core cultural values and company history.

Within Nokia, in contrast, the corporate vision of 'connecting people' together with the fact that members of the company have a strong bond between them ( ' having embarked on the technological journey together ' ) has led to an ' informal ' , ' innovative ' and ' can-do ' culture of knowledge sharing and of coordinating work processes. There are little formalized work patterns or lines of communication between communication professionals within Nokia; they rather liaise frequently and informally with one another.

### Recommendations for Research

In sum, the practice conceptualization of CC suggests a need to put the micro into macro in order to both uncover plausible linkages to performance (with stakeholder groups) and to offer tangible guides to managerial action. Some important insights, albeit preliminary and illustrative, on micro issues in CC are offered through our four case studies. However, beyond these preliminary case studies, through this case research study I make two main recommendations in line with this research agenda. First, I recommend further small sample in-depth studies of CC within firms, to develop the contextual and holistic understanding of the practice dimensions of CC that is essential to unpacking the complex driving forces of the management of CC and its strategic outcomes with stakeholders of the firm. In-depth studies, particularly at this early stage of theoretical development on CC, are a necessary feature of furthering the conceptualization and understanding of CC as an area of practice.

Second, I recommend process research as a methodology for capturing and explaining how the practice of CC evolves within firms. Process research is concerned with understanding how things evolve over time and why they evolve in this way (see Langley, 1999; Van de Ven and Huber, 1990), and process data therefore consist largely of stories about what happened and who did what when – that is, events, activities, and choices ordered over time. In his classic work on organization theory, Mohr (1982) makes a distinction between what he calls 'variance theory' and 'process theory'. Whereas variance theories provide explanations for phenomena in terms of relationships among dependent and independent variables (e.g. more of X and more of Y produce more of Z ), process theories provide explanations in terms of the sequence of events leading to an outcome (e.g. do A and then B to get C). Temporal ordering and probabilistic interaction between entities are important here (Mohr, 1982). Within the context of CC, the emphasis is with process research on understanding patterns in events (e.g. the link between activities and tools of communication practitioners and changes in stakeholder reputations), either as a narrative pattern or analytical sequence of events.

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## A LITERATURE REVIEW ON STRATEGIC ALLIANCES & HOW THEY COULD BE VALUED

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### **Abstract**

This paper reviews extant literature that forms a basis for further research on the valuation of strategic alliances. When confronted with an opportunity to invest in a new strategic alliance or to review the investment in an existing alliance, alliance managers often face the question: How much should we invest in the alliance going forward? To the manager, the value of the focal alliance is observed from the expected cashflows from the alliance. However, what the manager cannot easily observe is the expected cashflows that come from the spillovers of knowledge and capabilities from the focal alliance to his or her firm's affiliated business units and their alliance partners.

In this paper, I review the literature on strategic alliances from the resource-based view of the firm, knowledge-based view, and dynamic capabilities according to three views: the focal alliance view, dynamic view, and option view. The highlight of the paper is section 2.3 on the dynamic view of the literature in which I develop an intuition for a general valuation method for strategic alliances and in doing provide a partial answer to the alliance manager's question.

**Keywords:** Strategic alliances; joint ventures; alliance networks; valuation; value-ring perspective; knowledge spillovers

### **Introduction**

Strategic alliances have been around for centuries, however, in the world of commerce this type of hybrid organizational form has only become a usual way of doing business in the past forty years, and only becoming a central part of most public companies' growth strategies over the past twenty (Kale and Singh, 2009).

Strategic alliances have been a focus of academic attention for past 30 years and the literature has been quite well developed, especially in the field of strategy. Academic interest continues to grow, especially in alliance networks or alliance portfolios. Instead of the unit of analysis being individual strategic alliances between a group of firms with a single common aim, strategy academics are now looking closer at alliance networks as a more promising unit of analysis. Alliance networks contain multiple alliances each with different but related aims and their behaviour seem to better explain phenomenon found in "new economy" businesses. These businesses are characterized by their fast-paced, technology-driven, and knowledge-based industries, such as internet technology, semi-conductors, and biotech, where the highest rates of growth and highest returns on investment are found in comparison with traditional economy businesses.

The academic literature on strategic alliances and alliance networks tend to focus on issues such as why these entities form, what conditions keep them from or lead them to dissolution, how trust is formed, what the value drivers for performance are, how learning through alliance partners affects firm performance, etc. However on the issue of a general theory or methodology for the valuation of strategic alliances or alliance networks, little can be found in either the strategy or corporate finance literature.

This paper, therefore, aims to review several views of the literature that shed light on how to value strategic alliances particularly in the context of alliance networks. The paper is organized as follows: Section 1 reviews literature that answers some preliminary questions about strategic alliances. Section 2 is the main part of this paper in which I review promising views of the literature that shed light on how to value strategic alliances and their networks. The highlight of this review is Section 2.3 in which I develop an intuition for a general valuation method valuing strategic alliances. The general valuation method provides a partial answer to the alliance manager's question: How much should we invest in an alliance?

### **Preliminary issues on strategic alliances**

Gulati defines a general strategic alliance as a relationship between two or more independent firms who agree to pool together [a part of] their resources to pursue specific market opportunities (1995: 85). The term includes a variety of interfirm organizational forms, including non-traditional contractual arrangements, equity swaps, minority equity investments, and joint ventures in which a new entity separate from the parent firms is created (Kale and Singh, 2009: 47). For the purpose of this paper I use the general meaning of the term.

Some industries will tend to have more strategic alliances than others. In industries whose competitive environments are changing, the incidence of strategic alliances will be greater than for industries with stable competitive environments or where markets have been stable for a long time (Koza and Lewin, 1998: 257, Proposition 2). Kale et al (2002) confirm this proposition by noting that industries such as computers, telecommunications, pharmaceuticals, chemicals, electronics and services, in which they collected data for their empirical study, were the industries in which alliances are considered an important element of firm strategy.



<i>Researchers</i>	<i>Sample Period</i>	<i>Sample</i>	<i>Event window</i>	<i>Average AR* / Average CAR**</i>
<i>McConnell and Nantell (1985)</i>	1972 – 1979	136 domestic US joint ventures (in various industries: real estate development, nuclear power, coal mining, petrochemical, satellite communic'n, others)	2 days (-1 / 0)	*0.73% all joint ventures *1.10% smaller partner *0.63% larger partner Dollar value gains between smaller and larger partners were \$4.5m and \$6.6m resp'ly
<i>Chan, Kensinger, Keown, and Martin (1997)</i>	1983 – 1992	345 alliances 114 all public partners 231 only one public partner (involving 460 firms, with 394 in hi-tech industries and 66 in low-tech industries)	26 days (-20 / +5) with similar CAR results using a 2 day (-1 / 0) window	*0.64% all alliances *2.22% smaller partner *0.19% larger partner Dollar value gains between smaller and larger partners were \$8.9m and \$8.1m respectively.
<i>Das, Sen, and Sengupta (1998)</i>	1987 – 1991	119 US-Japanese alliances: 49 technology alliances 70 marketing alliances	7 days (-3 / +3)	**0.20% all alliances **1.6% technology alliances **-0.8% marketing alliances
<i>Anand and Khanna (2000)</i>	1990 – 1993	1576 alliances: 870 joint ventures 1106 licensing agreements	12 days (-10 / +1)	*0.81% all alliances *1.82% / **1.59% JVs *3.06% / **3.06% Licensing Dollar value gains of JV and licensing deals were \$44.1m and \$20.4m respectively.
<i>Reuer, Park, and Zollo (2002)</i>	1995 - 1997	1318 international joint ventures	3 days (-1 / +1)	** -1.83% all joint ventures
<i>Kale, Dyer, and Singh (2002)</i>  <i>Kale, Dyer, and Singh (2001)</i>	1993 – 1997	1572 alliances reported by 78 companies with more than \$500m in 1997 in whose industries alliances are generally considered an important part of firm strategy (e.g. computers, telecomm., pharmaceuticals, chemicals, electronics, and services.)	14 days (-10 / +3)	*0.84% all alliances *1.35% with alliance function *0.18% without Dollar wealth created for alliances an alliance function and those without were \$75.1m and \$20.2m respectively compared with avg of \$58.3m for all alliances.

Table 1: Value creation studies on individual strategic alliances using the event study method.

Value creation through individual strategic alliances has been studied thoroughly in the literature. The results vary, but there is a general agreement: strategic alliances on average create value for the parents of the allying firms, both in relative returns and in absolute monetary value. Taking a short-term market valuation perspective, researchers have used extensively the event study methodology to study the effects of public announcements of alliances. See Table 1 outlines some of the principal studies.

## Views of literature on the valuation of strategic alliances

Inkpen (2000) provides a framework of knowledge acquisition through joint ventures. He highlights three categories of benefits derived from the knowledge that can be acquired by a focal firm and its parent through a focal strategic alliance with two or more partners: (1) alliance partners' knowledge that is combined with the focal firm's knowledge generate *common benefits for all alliance partners*; (2) alliance partners' knowledge and the alliance generated knowledge that can be used in the business units of the parent of the focal firm generate *private benefits for the parent of the focal firm*; and (3) alliance experience knowledge gained by the parent of the focal firm of the alliance builds alliance management capabilities for other alliances generate further *private benefits for the parent of the focal firm*. These three categories of benefits generated as a consequence of the focal alliance provide of the literature on value creation in strategic alliances three different views, which I call *the focal alliance view*, *the dynamic view*, and *the option view*. To these I add a fourth called the *relational view* (Dyer and Singh, 1998), a view that covers all three views to varying extents. What follows is a discussion of each of these views of the literature beginning with the relational view because it spans across the other three views.

### The relational view and value-ring perspective

The *relational view* is based on the seminal paper by Dyer and Singh (1998) on how value is created through strategic alliances, and on their follow up paper (Dyer *et al*, 2008) on how the value created in strategic alliances is split between the partners. In the relational view, the unit of analysis is the single inter-firm strategic alliance and is a way of understanding the inter-organizational rent generation process. They list four determinants of *relational rents* or created value in alliances: (1) relation-specific assets; (2) knowledge-sharing routines; (3) complementary resources and capabilities; and (4) effective governance. They argue that inter-firm resource combinations, like resource combinations within a firm, can produce VRIN (valuable, rare, inimitable, and non-substitutable) resources that are unique to and intrinsically embedded in a focal alliance.

While the relational view offers a conception of how inter-firm strategic alliances create value, it is not clear where the boundaries of the value creation process begin and end. For example, knowledge-sharing routines is one of the determinants of relational rents, but knowledge is a resource that is not only passed to focal alliance partners, but to their respective parent firms, the business units of parent firms, and even to the alliance partners of business units of the parent firms. Such crossing of multiple organizational boundaries presents value measurement difficulties.

I therefore propose in Figure 1, a modified perspective to the relational view proposed by Dyer and Singh (1998) that looks at the value created in terms of four rings of value around the focal alliance: *alliance value*, *spillover value*, *network value*, and *option value*. The idea of this *value-ring perspective* is to segment the value creation effort, which spans multiple organizational boundaries to achieve a more parsimonious understanding of the value creation process and improved empirical measurement. Using the *value-ring perspective*, it is easier to see how a focal firm is able to trade-off the value created or destroyed from each of its four value-rings, which is the essence of the dynamic view.

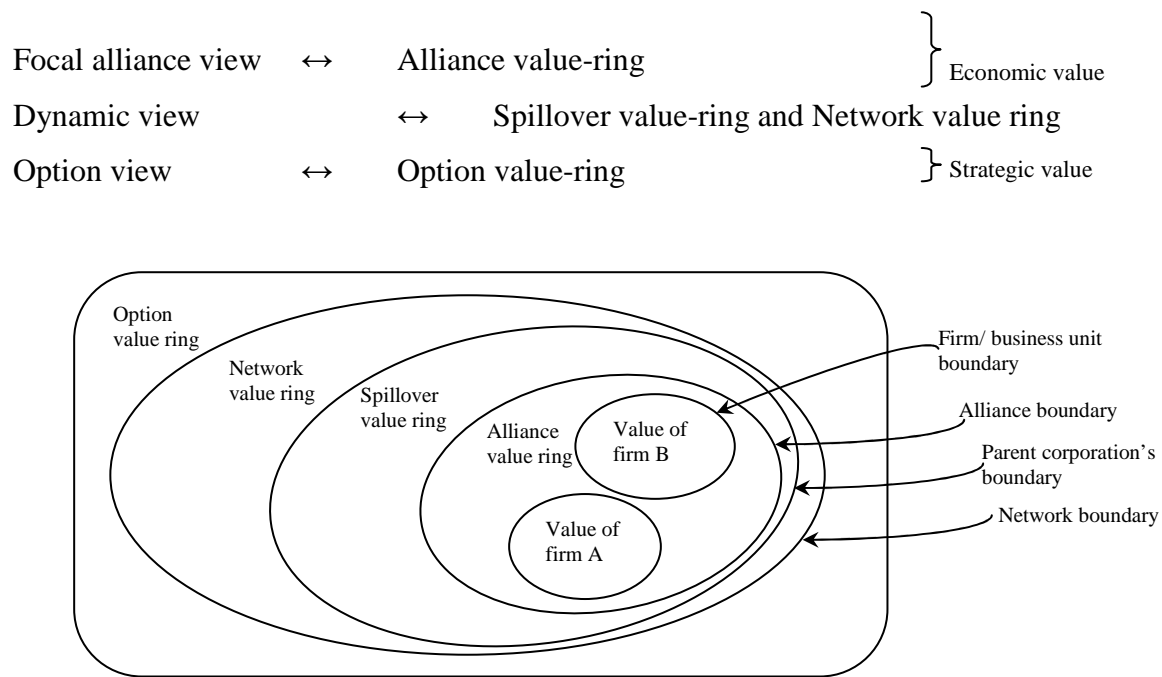


Figure 1: The value-ring perspective of the relational view (Dyer and Singh, 1998)

### Focal alliance view

The focal alliance view is about the common benefits of the focal alliance between two or more independent allying firms, about the alliance synergy value created by the alliance and shared between its partners, or simply called the alliance value. The organizational boundary of the alliance value-ring (seen in Figure 1) extends to the focal alliance's partnering firms and their respective parent firms, but not to the other business units of the parent firms. Alliance value is shared between the alliance partners according to a pre-alliance formation bargaining agreement (see Adegbesan and Higgins, 2010). This view of the literature focuses on how a single alliance creates and shares the common benefits between the partnering firms as opposed to benefits in alliance networks of multiple alliances. In this view, there are no private benefits. It is a static view of value creation, giving the initial conditions for the alliance value creation process.

The determinants of relational rents (Dyer and Singh, 1998) can help to explain the value creation process that generates alliance value within the boundary of the focal alliance and their respective parent firms, that is, within the alliance value-ring of Figure 1:

Relation-specific assets can increase alliance value because of the mutual hostage positions taken through joint commitment of financial or real assets that lead to superior alignment of incentives of equity joint venture partners (Kogut, 1988: 321). This is especially suited when there is high uncertainty over specifying and monitoring performance, in addition to high degree of asset specificity (Kogut, 1988: 320). Alliances that have relation-specific assets can also reduce transaction costs associated with accessing global markets by maximizing the use of alliance partners' local

distribution and production assets while minimizing capital costs in developing one's own network (Hennart, 1988: 363).

The development of relational capital between partners in earlier alliances leads to less need for equity based relationships in repeated alliances. In other words, equity capital is substituted by relational capital (see Gulati, 1995; Kale et al, 2000). Relational capital refers to the level of mutual trust, respect and friendship that arises out of close interaction at the individual level between alliance partners (Kale et al, 2000: 218). Initial investments in relation-specific assets set up conditions that make further investments in specialized assets economically viable, increasing the level of inter-organizational asset connectedness and hence relational rents (Dyer and Singh, 1998: 672).

Knowledge sharing routines are identified by many authors as an important source of alliance value (see Nelson and Winter, 1982; Kogut, 1988; Hennart, 1988; Kogut and Zander, 1993; Grant, 1996a; Kale et al, 2000). The level of relative absorptive capacity (Lane and Lubatkin, 1998) between firms in an alliance depends on their similarity in knowledge bases, organizational structures, compensation policies, and shared dominant logic. However, relative absorptive capacity only explains the efficiency of inter-firm learning and knowledge sharing, not its effectiveness at increasing alliance value. In other words, relative absorptive capacity does not say which types of knowledge should be shared so as to increase alliance value. Inkpen (2000) also focuses on the efficiency aspect of knowledge sharing routines proposing a framework for knowledge acquisition through joint ventures that is based on (a) how accessible alliance knowledge is to a partner and (b) how effective the partner acquires the alliance knowledge. Kale and Singh (2007) focus on alliance capability, the structural aspect of knowledge sharing routines that highlights the importance of the knowledge sharing as part of the alliance learning process. Grant and Badden-Fuller (2004) focus on increasing the effectiveness aspect of knowledge sharing through a proposed knowledge accessing theory of strategic alliances.

Complementary resources and capabilities are generally non-marketable and indivisible (Dyer and Singh, 1998: 667) as is the case with specialized expertise and intangible assets, such as brand name and corporate reputation. The extent to which an alliance can generate alliance value by strategically combining each partners' VRIN resources and capabilities will depend on their mutual ability to (a) identify the complementarity, (b) combine their (indivisible) resources and capability, and (c) sustain the competitive advantage over rivals, i.e. maintain the "VRIN-ness" of their combined assets.

Effective governance directly affects the size and sustainability of alliance value. Dyer and Singh (1998) identify this determinant of relational rents as the most important of all because the other three depend on it. The development of relational capital through the interaction of alliance partners at the individual level during the activities of governance can increase the level of mutual trust, which in turn reduces the need for equity based governance structures that require the use of third-parties to legally enforce agreements (Gulati, 1995; Dyer and Singh, 1998; Kale et al, 2000).

The focal alliance view is about how alliance value is created. However, alliance value is eventually divided between alliance partners. How the alliance value pie is cut and how this cutting in turn affects alliance value and the other value-rings shown in Figure 1 has been rarely discussed in the

literature. Adegbesan and Higgins (2010) look at how alliance value is divided between partners of strategic alliances formed between pharmaceutical and biotechnology firms. They use a bargaining approach whereby buyers and sellers bargain over the pie-splitting control rights of the alliance agreement before it is signed (i.e., pharma are buyers, who invest in product research services provided by biotechs, who are the sellers). I argue, contrary to Adegbesan and Higgins (2010) that how alliance value is divided between alliance partners causes interaction effects with the other value-rings, which is discussed next in the dynamic view.

The focal alliance view of the literature provides a good starting point to measure the initial value of a new alliance, i.e. alliance value. However, this view says nothing about how alliance value changes over the life of the alliance as the bargaining positions of partners change, nor if other value created beyond alliance value affects the behaviour of the partners. These deficiencies are compensated for in the dynamic view.

### **Dynamic view**

The dynamic view is about the continual and dynamic trade-off between the common benefits of the focal alliance (alliance value), the private benefits derived by the focal firms and their parent firms (spillover value) and private benefits derived by the business units of the parent firms and their network of alliance partners (network value) that occurs throughout the life of the alliance. The total benefits derived by each partner as the sum of its share of the common benefits and its private benefits (i.e. alliance value + spillover value + network value), do not have to be equal for each partner, but as long as it is positive for all partners and not overly unbalanced between them, the focal alliance will continue to operate.

The spillover value is the private benefit created within the boundary of the spillover value-ring that includes the other business units of the parent firm but not the focal partnering firm. It is a consequence of the focal alliance without which there would be no spillover value created. Spillovers include knowledge (know-how and information) and capabilities (technological, managerial, marketing, etc) learned from the focal alliance but applied outside the focal alliance. Network value is the further private benefit created within the boundary of the network value-ring which includes alliance partners of the business units of the focal partner's parent corporation and excludes the parent firm and the focal partnering firm. Like the business units, the alliance partners of the business units also benefit from the spillovers.

Although the value-ring perspective simplifies the process of measuring the value created, the valuation of each of the value-rings is still quite complex. Each partner's incentive to remain in the focal alliance is driven by its expected payoff structure. These payoff structures, however, are complex, are changing over time, and are interdependent i.e. depend on partner's payoff expectations (Khanna et al, 1998: 194) because the evolution of the alliance network is subject to exogenous and endogenous forces independent of the focal firms and focal alliance (Gulati et al, 2000: 210). Forces that affect the relationships between partners of the network of alliances are constantly and continuously pushing and pulling the network in and out of equilibrium. For example, an emergent

technology of a rival alliance network becomes the de facto industry standard; convergence of computer and telecommunication technologies; etc. Given this dynamic complexity, empirical valuation of strategic alliances will be challenging. To meet this challenge, I make certain simplifications.

### A general method for the valuation for strategic alliance: an intuition

Using seminal ideas from Khanna *et al* (1998), Bryce and Winter (2009), and Gulati *et al* (2000), I propose a general method of valuing the net total value implied in forming a focal strategic alliance that is essentially an equilibrium market valuation. However, because of the literature review nature of this paper, I will only briefly review these scholarly papers to give an intuition of the method. The intuition is summarized by equation (1), which is the sum of the value-rings shown in Figure 1<sup>19</sup>.

$$\text{Value of Strategic Alliance} = \text{Alliance value} + \text{Spillover value} + \text{Network value} \quad (1a)$$

$$= \text{CB}_{\text{alliance value-ring}} + \text{PB}_{\text{spillover value-ring}} + \text{PB}_{\text{network value-ring}} \quad (1b)$$

Alliance value is a common benefit (CB) and is observable from the valuation calculations that managers make when proposing the focal alliance's formation. However, spillover value and network value are private benefits (PB) but are not easily observable to managers because they are spread over multiple business units and alliance network partners.

To determine the size of each private benefit (PB) in equation (1b), Khanna *et al* (1998) propose three factors that affect their sizes:

(a) *Extent of opportunity for private benefits* measured by *relative scope ratio* (RS) – the ratio of the scope of the focal alliance's market to the scope of the firm's market, where market scope can be measured by sales or assets. Each partnering firm in the alliance will have a different relative scope ratio bounded between zero and one; the lower the relative scope, the greater the opportunity for private benefits;

(b) *Extent of ability to transfer learning* measured by a *learning transferability factor* ( $\tau$ ) – the ability to transfer knowledge and capabilities between business units, the parent firms, and the network of alliance partners.

(c) *Extent of relatedness between strategic assets* measured by an *asset relatedness factor* ( $\lambda$ ) – the extent to which the focal alliance's market activities are related to the entire firm's market of activities; and

Putting these three factors together, the Private Benefit function is given in equation (2), where  $\text{PB}_{ij}$  denotes the private benefits of firm  $i$  in alliance  $j$ ,  $\text{RS}_{ij}$  the relative scope of a firm  $i$  in an alliance  $j$ ,  $\lambda_{ij}$  the relatedness factor of firm  $i$ 's markets to alliance  $j$ 's markets, and  $\tau_{ij}$  the learning transferability factor of firm  $i$  from alliance  $j$ .

<sup>19</sup> Option value is not included because of methodological challenges described in the section on Option View.

$$PB_{ij} = f(RS_{ij}, \tau_{ij}, \lambda_{ij}) \quad (2)$$

How can the three factors in the Private Benefit function be proxied? Relative scope (RS) is a straightforward measure given by Khanna *et al* (1998: 195). For the learning transferability factor  $\tau_{ij}$ , Khanna *et al* (1998) also suggest using the focal partner firm's absorptive capacity (Cohen and Levinthal, 1990) or its relative absorptive capacity (Lane and Lubatkin, 1998) with its partner firms. However both these proxies for learning transferability are only efficiency measures. An alternative better proxy for  $\tau_{ij}$  that takes into account the effectiveness of learning transferability is the alliance capability measure given by the alliance learning process (Kale and Singh, 2007). A more sophisticated proxy for learning transferability would combine learning efficiency and learning effectiveness.

The asset relatedness factor  $\lambda_{ij}$  is more difficult to calculate. Bryce and Winter's (2009) general inter-industry relatedness index, however, provides a novel and general solution to the problem. More importantly it is an elegant approach to simplifying the understanding of the complex forces that are pushing and pulling related industries' strategic alliance networks in and out of equilibrium (Gulati *et al*, 2000).

But before explaining further how to measure the asset relatedness factor  $\lambda_{ij}$ , what is meant by asset relatedness? Two assets are said to be related if they are frequently found together such that the higher the frequency they are found together the higher the relatedness (e.g. tennis racquets and tennis balls) and the lower frequency found together the lower the relatedness. Similarly in firms, alliances and networks of alliances, certain paired combinations of resources, because of their strategic complementarity will more frequently be found together in the same firm or alliance and hence are more related. However, the problem is how to identify these complementary pairs of resources. Strategic resources are often bundled, tacit, intangible or unobservable (Nelson and Winter, 1982; Rumelt, 1984), as well as have origins that are causally ambiguous and socially complex (Barney, 1991). The advantage of Bryce and Winter's (2009) general relatedness index is that it avoids having to explicitly identify these strategic resources. Instead, the index relies on measuring how certain pairs of industries, identified by Standard Industrial Codes (SIC), tend to be found together more often than other pairs of SICs.

If each industry SIC is seen as a basket of resources or assets (i.e. skills, knowledge, capabilities, etc) and if Bryce and Winter's (2009) index empirically measures how related one asset is to every other asset, then we can construct an n-by-n asset relatedness matrix of n assets in which the off-diagonals contain the calculated measures of asset relatedness between each pair of different assets. To scale the strength of asset relatedness, Bryce and Winter (2009) use sales by SIC. An example best illustrates the meaning of the asset relatedness measures of the matrix: a focal alliance has its business in SIC 1 and 2. Partner A of the focal alliance has its own businesses in SIC 2 and 3 while Partner B has its own

businesses in SIC 1, 3, and 4. We want to know the expected value of the private benefits Partner A could derive from the focal alliance. Pairing combinations of the Partner A's own business SICs (left element of matrix coordinate) with alliance's business SICs (right element of matrix coordinates), elements (2,1); (3,1); and (3,2) of the asset relatedness matrix can tell us expected value of the private benefits as determined by the market used in the calculation of the matrix values. See Figure 2. Similarly for Partner B, the expected value of its private benefits can be found looking at the matrix elements (1,3); (1,4); (2,3); and (2,4).

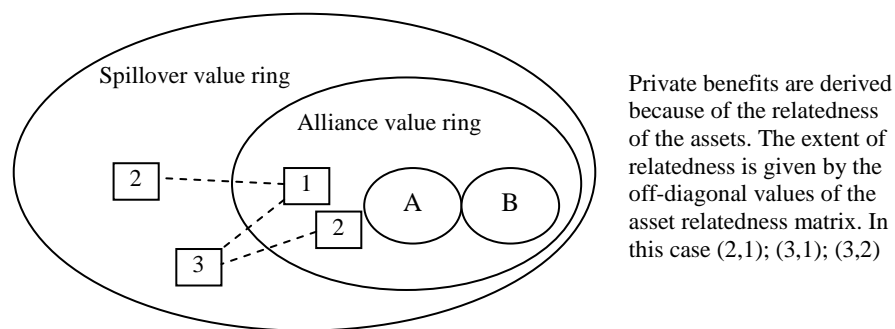


Figure 2: Illustration determining private benefits with asset relatedness matrix value

Now that we have estimates for the three factors in the Private Benefit function (equation 2), we can estimate the value of a strategic alliance (equation 1). For an alliance manager who wants to know how much should be invested in a strategic alliance beyond the observable common benefits of the focal alliance (i.e. alliance value), this method determines a general value for the unobservable private benefits that are implied by market for the focal alliance which are derived as a consequence of the private benefits of the affiliated business units and of the network of alliances connected with the focal alliance. The total value of the focal alliance is the sum of the common benefits and the private benefits.

### Option view

The *option view* of the literature focuses on the value created by firm capabilities and dynamic capabilities (Teece, *et al*, 1997; Eisenhardt and Martin, 2000) and how as intangible assets of each firm they represent a potential value in the form of real options. As firms create long-term strategic alliances, the capabilities and dynamic capabilities become more and more embedded in the strategic relationship, in turn creating a real option value that is both a common and private benefit. The option view distinguishes itself from the other three views because it focuses on how strategic alliances are used to create value through the development of *future* products and services as opposed to current products and services.

Although the option value of strategic alliances is significant, not all investments, even at the firm level, can be usefully or easily analyzed using real options theory. As the value of real options is



generally driven by uncertainty and managerial discretion (Dixit and Pindyck, 1994; Trigeorgis, 1996), the complexity of framing real options increases rapidly with the number of sources and types of uncertainty, as well as with the number of kinds of managerial decisions that need to be made to manage risk. These real options framing complexities and limitations of off-the-shelf mathematical tools limit the types of problems that can be readily solved (Amram and Kulatilaka, 1999). For the purposes of estimating the value of strategic alliance, using real options theory presents real challenges.

## Conclusions, limitations and further research

Of the three views of the literature taken in this literature survey, the dynamic view is the most promising for the determining the value of a focal strategic alliance. Under the dynamic view, I develop an intuition for a general valuation method for a strategic alliance. In this sense, the method is still not fully developed but forms a basis for further research and empirical testing, which is also lacking at this point in time. The method also side-steps an important part of valuation creation in strategic alliances, namely the option value.

## Biography

**Ian Kwan** is a doctoral student from Hong Kong. His field is corporate finance with research interests are in the valuation of strategic alliances, intangible assets and intellectual capital. His current research projects include developing a general method for the valuation of strategic alliances and testing the hypothesis that acquisitions in which the acquirer had a previous alliance with a partner in an industry similar to the target is more likely to perform better than acquisitions with no previous alliance experience.

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## AN INVESTIGATION OF PART-TIME TELEWORK AT THE CONSEIL GÉNÉRAL DU FINISTÈRE, FRANCE

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### **Abstract**

The objective of this study, currently in progress, is to evaluate the impact of part-time telework on teleworkers and key individuals with whom they interact at the Conseil Général du Finistère, France. The investigation is based on a series of research questions stemming from the literature on telework and telework in France. A mixed-method approach, based on attitude scales (using Likert scales) and open-ended questions, is used in self-administered questionnaires. This study proposes using role sets to reveal advantages and disadvantages of telework for stakeholders, such as organisations, line managers and their teleworking employees.

**Keywords:** Home-based telework, part-time telework, telework, telework stakeholders

### **Introduction**

Despite its growth, there have been few studies on the impact of telework and its consequences on teleworkers, their non-teleworking colleagues and their line managers. There are no known studies which have evaluated telework from multiple perspectives in a regional French administration context, such as at the Conseil Général du Finistère (CGF).

The CGF is the governmental administration serving the Département (region) of Finistère in Brittany, France. It employs 2,800 staff. The head of the CGF is the president of the Département. The telework pilot programme is made up of 27 full-time staff members, who telework part-time (two to three days per week as part of their full-time schedule) at home.

### **Literature review**

Despite a lack of clear definitions of telework in the literature, the terms telecommuting, telework and distance/remote work are, in general, interchangeable expressions. Telework and distance work refer to work being carried out at a distance, within some type of organisational structure (Pinsonneault and Boisvert, 1996). In other words, telework can be carried out asynchronously and, due to its independent nature, is not restricted to standard working hours. The proposed definition of telework for my research is 'work carried out (often via electronic means) partially, or completely, away from the usual place of business'.

Telework, in my study, is also defined as non-standard work. If it can be posited that workers who do not conform to the 'standard' work regime suffer from disadvantages, it is also likely that

teleworkers will experience similar disadvantages, or more. By contrast, one potential advantage of telework is increased flexibility.

The literature suggests that telework has had a positive influence on workplace flexibility (Hill, Miller, Weiner and Colihan, 1998). Workers expressed greater flexibility in organising work time and a strengthened sense of control (ibid). This same study by Hill et al. (1998), however, does not provide data from perspectives other than those of teleworkers. My study can provide a comparison of experiences. In the French context flexibility is also affected by the implementation of a shortened work week.

The implementation of the 35-hour work week is still experiencing growing pains since it has not yet been unanimously accepted by all sectors of the economy, notably some labour unions. It was also found that the 35-hour work week has had an opposing impact on work-life balance: surveys of employees show that their quality of life had theoretically improved but their working pressure had intensified and hours were more irregular (Fagnani and Letablier, 2004). This could, in turn, fuel demands to telework to improve work-life balance for workers. Furthermore, the affect of telework on work-life balance implies gender issues.

In France, 69% of women aged 25 to 54 in 1999 were employed (Eurostat, 2004). It is not until French women have a third child that female employment rates decrease (Bonavita, 2004). These figures, however, fail to take into account the reasons why women work (e.g. financial reasons, family obligations (single motherhood)). How does this relate to demands from French women to telework? From one perspective, one could consider this situation a barrier to the development of female employment in France. This suggests that there is also a 'flexible work' culture linked to male and female job roles. This also suggests that men and women in France have different desires to telework, and different demands for working hour flexibility. My study can evaluate gender differences in telework experiences in the French context.

From another angle, what affects does telework have on non-teleworkers? Though the branch of the literature remains incomplete, findings suggest (Golden, 2007) that telework alters work interactions for non-teleworkers and negatively affects non-teleworker work satisfaction. Golden's study (2007), however, does not take into account the impact of telework on non-teleworking managers, which my study attempts to evaluate.

What technological requirements facilitate telework? Despite an increased use of telework in France (INSEE, 2009), its diffusion has remained below expectations (ETO, 1998, SIBIS, 2003). It is, however, clear that the French government has endorsed the improvement of internet access, at least at a technological level. One constraint for telework adoption in France is a lack of computer and internet access, especially in regions outside of urban centres (Challenges, 2008). In the Département of the Finistère, it is estimated that 10% of inhabitants do not have access to an internet connection. By contrast, it has been argued that technology is not the main reason for the adoption of telework (Felstead, Jewson and Walters, 2005). In this vein, what other issues impact telework usage within the French context?

Another constraint for telework adoption in France is a tendency to manage based on presence. The French workplace exemplifies a long-hours culture (Spony, 2003) based on presence rather than output (de Beer, 2002). Despite this, there remains a lack of research which evaluates the impact of telework in a long-hours culture using a method based on multiple perspectives. Besides cultural issues, how does telework affect career opportunities and turnover intentions for workers?

Several studies have evaluated the link between opportunities to work flexibly and employee turnover (Arnold et al., 2006). In the case study on the National Health Service (NHS) by Arnold et al. (2006) it was found that one reason workers left the NHS was for more flexibility. Illegem and Verbeke's (2004) study reveals that telework can be a means to attract and retain valuable employees. This is supported by Golden (2006), who claims that teleworkers have higher commitment to organisations and weaker turnover intentions. It could be posited that telework positively affects job satisfaction and consequently the firm's resource base because it is important for employers to retain skilled people.

## Methodology

My study will attempt to investigate the above issues using role set analysis (Merton, 1957). Using role sets provides a means to compare the experiences of teleworkers (as the focal point), their non-teleworking colleagues and their line managers according to their expectations. Role set analysis also assumes that role set holders interact in a significant way with other role set holders (Merton, 1957). In sum, role set analysis maintains that the relationships between role holders are associated by links that can be evaluated.

Relationships between role holders can be studied using the interpretivist approach. Interpretivism is linked to social research, which refers to the study of the interaction between ideas and evidence (Ragan, 1994). This study proposes the use of the interpretivist approach to provide sets of themes related to research questions, based on a case study.

Case study analysis is an in-depth exploration of a phenomenon (Yin, 1994). A case study can be described as an attempt to explain a phenomenon within a particular context (ibid). My study of telework at the CGF uses an exploratory case study approach since it attempts to investigate an under-researched phenomenon within a single context. The units of analysis, role sets in this case, will be evaluated using self-administered questionnaires.

Research questions will be embedded in anonymous questionnaires, in three versions, designated to each role set holder: teleworkers, non-teleworking colleagues and line managers. Questionnaires will be used to collect quantitative data (from attitude scales) and qualitative data (from open-ended questions) on the experiences of telework programme participants. Anonymity and confidentiality will be guaranteed for all respondents. Questionnaires will be sent to participants via email with the option to return by email or post. Questionnaires will allow the comparison and analysis of data from teleworkers, their non-teleworking colleagues and their line managers.

Questionnaires will be distributed to 27 teleworkers (total number of teleworkers currently at the CGF), the equivalent number of non-teleworking colleagues and line managers, in person by the researcher. Furthermore, questionnaires will be sent electronically with a reminder message by the CGF approximately two weeks after the initial questionnaire launch.

Attitude scale data will be evaluated using descriptive statistics. However, given the small number of participants, analysis will focus on the evaluation of qualitative data. Qualitative data, transcribed from questionnaire replies, will be sorted using content analysis supported by the use of Meaning Units, or MUs (Giorgi, 1985, 1994). Silverman (2000, p. 123) states, however, that using content analysis is restrictive since it confines results examined to a grid. Content analysis, with the extraction of MUs (Giorgi, 1985, 1994), can mitigate this.

Themes identified in this study can identify experiences and implications of telework for teleworkers, their non-teleworking colleagues and their line managers at the CGF. Findings will also provide a deeper meaning of the case of telework at the CGF and a source of data for similar organisations in France. In turn, this study will enrich the literature on telework, which lacks empirical studies using role sets in the French context.

## Biography

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**THE MEDIATING EFFECT OF MARKET ORIENTATION AND INNOVATION  
ON THE RELATIONSHIP BETWEEN QUALITY ORIENTATION  
AND ORGANISATIONAL PERFORMANCE IN PUBLIC  
HEALTHCARE ORGANISATIONS**

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### **Abstract**

This paper seeks to develop an integrative model to examine the mediating effect of market orientation and innovation on the quality-organisational performance relationship. The present study employs a quantitative approach. The study empirically examines the proposed model on a sample of public health care organisations in Portugal. This research demonstrates that the relationship between quality orientation and organisational performance is better understood if taken into account the influence of market orientation which acts as a mediator construct in the aforementioned relationship. Findings of the present may assist healthcare managers as well as public policy makers in the design of policies to achieve quality goals while improving organisational performance. The present study shows the importance of market orientation in driving quality while fostering performance in the healthcare sector.

**Keywords:** Quality orientation, performance, market orientation, innovation, Health care sector

### **Introduction**

The financial constraints surrounding the management of health care organisations have emphasised the need to introduce measures to raise both efficiency and quality. Against this political and economic background, the need to improve the management and delivery of health care services was placed in the centre of political agenda and increasingly governments have undertaken reforms in response to raised expectations of improving performance and quality of service (McAdam & Saulters, 2000, Gaster & Squires, 2003). Such goals have been pursued through the implementation of concepts and management frameworks mainly derived from the private sector, which comprise, to varying degrees, key aspects of Total Quality Management (TQM) (Hansson, 2000; Ovreteit, 2000). However, some authors argue that the focus on reducing costs side by side with the introduction of quality programmes, mostly associated with private management approaches, may not per se be enough to enhance organisational performance in a long term (Gaster & Squires, 2003). This is in line

with other authors who suggest that quality improvement programmes do not necessary lead to better organisational performance results (Naveh & Stern, 2005).

While previous studies examining the link between quality and performance have largely focused on the direct relationship between the two constructs, the mediating effect of other relevant constructs, such as market orientation (Agus & Abdullah, 2000) and innovation propensity have been somehow neglected. We believe that to fully understand the link between quality and performance, in the health care context, one need to use a broader conceptual model, in which the constructs of market orientation and innovation act as complementary tools to assess different levels of performance (Lai & Chen, 2005). Although several studies have examined the implementation of TQM in the hospital setting (Nwabueze & Kanji, 1997; Kunst & Lemmink, 2000; Ovretveit, 2000; Young, Charns & Shortell, 2001), scarce research has been specifically directed to study the mediating role of key constructs such as market orientation and innovation in the relationship between quality and performance.

As an attempt to fill this gap, this research aims to address the following research questions:

- To what extent does quality orientation influences organizational performance?
- To what extent does marketing orientation plays a mediating role in the quality orientation-organisational performance relationship?
- To what extent does innovation plays a mediating role in the quality orientation-organisational performance relationship?

This study assumes that answers to such questions have relevant implications for long-term sustainable competitive advantage of public health-care organisations. It seems also worth noting that existing research is mostly focused on the American context, where the health sector is much more competitive contrasting with the European setting, in which health care needs to be examined in the realm of the public sector.

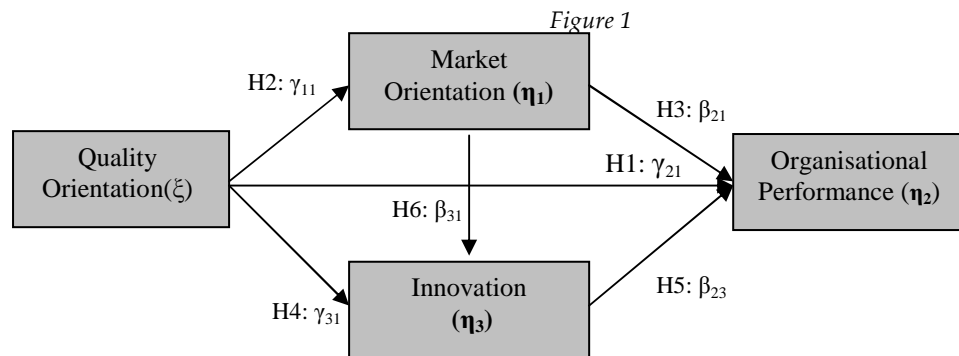
## **Literature review and hypotheses**

Investigating the impact of quality orientation and market orientation on organisational performance is highly relevant since they are complementary philosophies with potential benefits for improving results (Mohr-Jackson, 1998). To be successful, an organisation needs to have both types of orientations (Raju & Lonial, 2002: 336). Figure 1 depicts the relationships between the proposed constructs.

### **Relationship between quality orientation and organisational performance**

Although a number of empirical studies have reported the positive effects of applying the quality orientation construct on performance to the service context, very little efforts have been directed to the healthcare context, particularly in hospitals (Li, 1997). Moreover, the adoption of a quality system in healthcare setting has been recognised as an integrated, and inter-functional process which adds value and subsequently contributes to improve performance (Li,

1997) Additionally, the implementation of quality orientation programmes have often been linked to reduction costs objectives, considered as a more direct way of influencing profitability (Raju & Lonial, 2002). In this context, “total quality orientation” has become popular among hospitals because of its promise to reconcile trade-offs between costs and quality” (Arndt and Bigelow, 1995:7). Considering the above, it is hypothesised that:



H1: The higher the Quality Orientation, the greater the Organisational Performance

### Relationship between quality orientation and market orientation

The key to quality management lies in discerning and exploiting customer perceptions of quality and the ways to transform these perceptions into real offerings. In other words, improving quality per se is not sufficient, what matters is enhancing the customer's perception of quality. This is particularly important in the context of healthcare services where customers often lack the ability to assess the quality of the services due to its complex nature. Moreover, many quality improvements efforts have been criticized for not taking feed-back into account despite the call for an increase in the integration of customer and quality orientations (Kordupleski et al., 1993; Wisniewski and Donnelly, 1996).

Both market and quality orientations share a number of common characteristics inasmuch as both seek to achieve a better organisational performance by meeting customer requirements as well as achieving a greater job (employee) satisfaction and commitment (Lai, 2003; Deming, 1986). Market and quality oriented organisations use market intelligence to anticipate customer's needs and expectation thus delivering superior value to customers. This is in line with the three core dimensions of market orientation (Kholi & Jaworski, 1990). Furthermore, quality management orientation emphasises the use of team work structures for improvement, which is analogous to inter-functional coordination and dissemination of information important dimensions of market orientation proposed respectively by Narver and Slater (1990) and Kholi and Jaworski (1990). Hence, the following hypothesis is offered:

H2: The higher the Quality Orientation, the greater the Market Orientation

**Relationship between market orientation and organisational performance**

Over the last decade, there have been a vast number of studies examining the relationship between the degree of market orientation and organisational performance. Most of these studies assume that the implementation of a market orientation will lead almost inevitably to superior organisational performance (Piercy, et al., 2002). This relies on the fact that a market orientation posture creates a favourable environment to fulfil the customer's needs, thus contributing to deliver superior value to customers on an ongoing basis. Few studies, however, have examined this relationship in the specific context of healthcare organisations (Bhuian & Abdul-Gader, 1997). Thus, it is proposed that:

H3: The higher the Market Orientation, the greater the Organisational Performance

**Relationship between quality orientation and innovation**

Innovation is the second mediating construct included in the present study. The relevance of this construct can be justified through the often-cited passage of Drucker (1954) who maintained that any business organisation has two and only two core functions: marketing and innovation. Han et al. (1998) contented that, although innovation is mostly associated with new product-related breakthroughs, recent studies have underlined the relevance of organisational and administrative processes and leading edge technology which relate to business operations activities of an organisation (Narver et al., 2000). It is only logical to assume that facing increasing demand, under the financial constraints, would require public healthcare providers to seek innovative ways of practice and the help of new technology if it was to maintain/enhance their service quality. Taking all the above into account, it is hypothesised that:

H4: The higher the health care provider's Quality Orientation the greater the propensity to Innovate

**Relationship between innovation and organisational performance**

The relationship between innovation and organisational performance has been extensively examined in a number of studies in the organisational field (Damanpour & Evan, 1984). The main argument for organisation to improved performance derives from innovations that effectively respond to the challenges and dangers a organisation faces in its entrepreneurial environment (Han et al., 1998). Thus, it is hypothesised that:

H5: The higher the health care provider propensity to innovate the greater the Organisational Performance

### **Relationship between market orientation and innovation**

The relationship between marketing and innovation has been fraught with difficulties issuing from the potential friction between those who view the customers as the main actor in the decision-making process and those who see innovative product development as the key driver of economic growth (Berthon et al., 2004). However, bearing in mind the financial constraints of the sector, the ability on innovation may well determine the possibility of the organisation been market orientated (i.e. satisfy customers needs and wants and been competitive). Thus, it is hypothesised that:

H6: The higher the Market Orientation of health care providers, the greater the Innovation

## **Methodology**

### **Sample and data collection procedures**

The present study employs mainly a quantitative approach. Following this approach, the different constructs are measured precisely and the data are collected under standardised conditions. The questionnaire was pre-tested to six academics and four practitioners to ensure the content validity of the measurements and prevent any bias in the questions. Subsequently, a questionnaire was sent to the CEO of a national-wide population of 471 health care organisations yielding a valid sample of 83 questionnaires, which corresponds to a response rate 18 of per cent. Non-response bias was assessed by comparing early to late respondents (Armstrong & Overton, 1977). Univariate tests of significance (t-tests) were conducted and no significant difference was found between two waves of respondents along the main predictor variables.

### **Measurement of variables**

Construct measure for our study have been derived from existing literature. Most of these constructs have been shown to be psychometrically sound in different cross-cultural contexts.

- **Quality orientation:** This construct was operationalised using the scale developed by Black and Porter (1996) and further adapted by Lai and Cheng (2005). This scale is based in 39 items aggregated in 10 dimensions. The items related to each dimension were measured on a five-point scale (1=strongly disagree to 5= strongly agree).
- **Market Orientation:** This construct was operationalised using the scale developed by Jaworski and Kholi (1993) which is based in 20 items. These items were measured on a five-point scale (1=strongly disagree to 5= strongly agree).
- **Innovation:** This construct was operationalised using the scale developed by McDonald, (2007), and is based on four items which were measured on a five-point scale (1=strongly disagree to 5= strongly agree).

- **Organisational Performance:** This construct was measured using the scale proposed by Lai and Cheng (2005) and is based on 15 items aggregated in 4 dimensions (Motivation performance, market performance, productivity performance and societal performance). These items were measured on a five-point scale (1=strongly disagree to 5= strongly agree).

## Results

Partial Least Squares (PLS) technique was chosen to conduct data analysis (Tenenhaus, Vinzi, Chatelin & Lauro, 2005). Although the measurement and structural parameters are estimated together, a PLS model is analysed and interpreted in two stages: 1) the assessment of the reliability and validity of the measurement model (outer model); 2) the assessment of the structural (or inner model).

The Measurement (or outer) model: In order to ensure the homogeneity and internal consistency of the sub-scales those items which account for each dimension were correlated with their item to total correlation. Those items below a sudden drop-off ( $r < 0.25$ ) were eliminated. Then, the remaining items were taken using composite scores by computing the arithmetic mean of the items. The first step in interpreting the results is to examine the reliability and validity of measurement scales. PLS computes directly measures of internal consistency (Cronbach's alpha) and composite reliability (Dillon-Goldstein). All composite reliability values and Cronbach's alpha coefficients exceed the 0.70, evidencing a fair level of internal consistency in the responses (Nunnally & Bernstein, 1994). For those constructs with reflective measures one examines the standardized loadings (or correlations) between the indicators and their respective constructs. The standardised loadings range from 0.65 to 0.89 for the quality orientation construct; from 0.83 to 0.89 for the market orientation construct; from 0.86 to 0.91 for the innovation construct; from 0.80 to 0.88 for the performance construct.

The structural (or inner) model: In order to test the proposed hypotheses the structural model was estimated. Goodness-of-fit in a PLS estimation is demonstrated, according to Chin (1998) by strong factor loadings (or correlations), significant path coefficients, t-values and high R<sup>2</sup> values. Resampling procedures such as bootstrapping and Jackknifing were used to analyse the stability of estimates. Among six potential relationships four were statistically significant. In order to assess the predictive validity of the parameter estimates, the cv-redundancy index (i.e. Stone-Geisser Q<sup>2</sup> test) evidenced predictive relevance.

	<i>Paths</i>	<i>Coefficients (Intervals)</i>	<i>t-Value</i>	<i>R<sup>2</sup></i>	<i>Hypotheses Decision</i>
H1: $\gamma_{21}$	Quality Orientation (QO) - Org. Perform	0.12 [-0.171-0.329]	1.109	0.54	Rejected
H2: $\gamma_{11}$	Quality Orientation - Market Orientation	0.818 [0.744-0.891]	22.56*	0.81	Accepted
H3: $\beta_{21}$	Market Orientation (MO) - Org. Perform.	0.30 [0.184-0.641]	2.821**	0.64	Accepted
H4: $\gamma_{31}$	Quality Orientation - Innovation (Innov)	-0.0 [-0.242-0.280]	-0.177	0.47	Rejected
H5: $\beta_{23}$	Innovation - Org. Perform.	0.350 [0.092-0.469]	3.851**	0.56	Accepted
H6: $\beta_{31}$	Market Orientation - Innovation	0.604 [0.293-0.806]	5.012*	0.58	Accepted

Table 1: Bootstrap estimation of path coefficients

Notes: \* $p < 0.01$ ; \*\* $p < 0.05$  (2-tailed);

The results lead us to support four of the six proposed research hypotheses. It is interesting to note that the following relationships were not empirically validated: QO  $\rightarrow$  Org. Perform ( $\gamma_{21}=1.1$ ) and QO  $\rightarrow$  Innov ( $\gamma_{31}=-0.17$ ).

However, we found a positive relationship among the following relationships: QO $\rightarrow$ MO ( $\gamma_{11}= 0.81$ ); MO $\rightarrow$ Org. Perform. ( $\beta_{21}= 0.64$ ); Innov $\rightarrow$ Perf ( $\beta_{23}= 0.56$ ) and MO $\rightarrow$ Innov ( $\beta_{31}= 0.58$ ).

## Conclusion

The present study shows the importance of market orientation in driving quality while fostering performance in the healthcare sector. Although the study did not validate the direct relationship between quality orientation and organisational performance; a relationship between these two constructs was found when mediated by market orientation. Additionally, a positive relationship is also found between innovation and performance. In fact, the market orientation construct has a particular relevance since it has a positive impact on both organisational performance and innovation. The results do not imply that quality orientation is unimportant, but emphasise that focusing on quality orientation along, particularly when associated with internal quality processes does not appear to have a direct impact on organisational performance. This also means that quality efforts need to be tied up with a focus on inter-functional coordination and dissemination of information as well as responsiveness, as part of a market orientation strategy. Consistent with other authors, aligning quality and marketing orientations lead organisations to achieve higher levels of organisational performance (Lai & Cheng, 2005).

Furthermore, from a practical perspective, the findings may assist healthcare managers as well as public policy makers in the design of policies to achieve quality goals while improving organisational performance. This study was conducted in the healthcare context and may not be generalisable to

other industries. Moreover, as the sample used for this study was drawn from Portugal, it would be relevant to further test the conceptual model in other organisational and cultural contexts.

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## CUSTOMER SATISFACTION AND UNPLANNED IMPULSE BEHAVIOUR: EVIDENCES FROM SPANISH FOOD RETAILING

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### Abstract

This paper attempts to improve understanding of the store attributes and factors that grocery retail managers could exploit to enhance customer satisfaction in response to impulse buying behaviours. Together with an in-depth review of literature on store attributes, unplanned impulse behaviour and their relationship with customer satisfaction, a factorial principal components analysis using a database of 422 Spanish consumers was conducted. Three factors underlie consumers' perceptions of the value of different salient store attributes; to test their influence on satisfaction, this study uses a regression analysis, with unplanned purchase behaviour as a moderator. The results reinforce the importance of services and convenience. We provide a series of managerial guidelines that provide grocery retailers with suggestions for increasing their performance in different consumer segments according to their unplanned purchase behaviour.

**Keywords:** Customer satisfaction, unplanned impulse buying, food retailing.

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### Introduction

The concept of customer satisfaction has become not only extremely important but also widely researched in recent marketing literature. Part of this focus is due to its relevance for fundamental aspects of the organisation, including survival and exit. The extensive research into customer satisfaction thus includes the area of services management (e.g., Bodet, 2008; Gómez, McLaughlin and Wittink, 2004; McCollough, Berry and Yadav, 2000), in which context many studies indicate that satisfaction is an antecedent of critical marketing dimensions, such as relationship commitment (Johnson, Gustafsson and Andreassen, 2001) and loyalty (Bloemer and de Ruyter, 1998; Bodet, 2008; Fornell, 1992; Fornell et al., 1996; Meyer-Waarden, 2008; Sivadas and Baker-Prewitt, 2000; Yu and

Dean, 2001), as well as retention (Rust and Zahorik, 1993) and positive word of mouth (Fornell, 2007; Luo and Homburg, 2007). Customer satisfaction therefore has extremely important implications for both customers and organisations. Well-established causal models, such as the Swedish Customer Satisfaction Barometer and the American Customer Satisfaction Index, reveal that as satisfaction increases, so does the likelihood of favourable behavioural outcomes such as loyalty (Fornell, 1992; Fornell et al., 1996).

In particular, grocery retailers need to be conscious of customer satisfaction as a determinant of the success of their marketing strategies (Gómez et al., 2004). Customers are more likely to frequent a store that provides them with satisfaction rather than pursue alternatives that entail greater uncertainty (Fornell, 2007). Therefore, retail managers seek resources and capabilities that will enable them to satisfy customers (e.g., Davis, Mentzer and Stank, 2007; González-Benito, 2002). In this sense, satisfaction is an affective reaction to the performance of attributes that have varying levels of salience. For grocery retailing in particular, prior literature identifies a diverse range of store attributes, whose synthesis generates a store image (Theodoridis and Chatzipanagiotou, 2009) that customers use to differentiate among competing food stores (e.g., Ganesh, Reynolds and Luckett, 2007; Gómez et al., 2004). With the aim of understanding underlying factors that affect customer satisfaction, prior research has explored diverse store attributes that influence satisfaction with the shopping trip (Theodoridis and Chatzipanagiotou, 2009).

The need to consider customer satisfaction is especially salient in times of economic instability, when consumers seek to control their spending. In the current economic scenario, characterised by economic instability and modified consumption habits—including dramatic growth in store brand consumption (PLMA, 2009)—some research assesses how unplanned purchases may help grocery retailers improve their performance (e.g., Bell, Corstens and Knox, 2008). Therefore, this study investigates impulse or unplanned shopping behaviour from a customer satisfaction perspective. Although empirically difficult to measure, unplanned shopping behaviour has been captured in various studies with different store types and product categories (Bellenger, Robertson and Hirshman, 1978; Du Pont, 1965; Kollat and Willett, 1967; Prasad, 1975; Williams and Dardis, 1972) and evidently relates closely to the use of shopping lists (Shoham and Makovec, 2003), which reduce unplanned purchases. Both customer satisfaction and impulse shopping behaviour are well-established areas of marketing theory, but to date, they have remained unlinked concepts.

The aim of this study therefore is twofold. First, we establish an underlying factorial structure of the store attributes that drive customer satisfaction. Second, we apply this structure to test whether customer satisfaction might be moderated by the level of unplanned behaviour, as represented by the usage (always, never, sometimes) of shopping lists.

In the next section, we review literature on store attributes, unplanned impulse behaviour and their relationship with customer satisfaction. We then describe the database and variables used in this study, which enable us carry out a factorial analysis to determine the factorial structure underlying consumers' store attribute perceptions. To test the influence of these factors on overall satisfaction, we

conduct a parametric linear regression analysis, which takes unplanned purchase behaviour into account. Finally, we provide a series of conclusions based on our findings, some future research lines pertaining to store attributes and their influence on customers' overall satisfaction and managerial guidelines that provide grocery retailers with suggestions for increasing their performance in different consumer segments according to their unplanned purchase behaviour.

## **Conceptual background**

For many years business survival across different industries, including grocery retailing, has been closely connected with the ability to satisfy customers by providing an offering superior to the competition's (Valdani and Busacca, 1992; Zeithaml et al., 1996). Satisfaction results from the attributes of the offering, including store attributes, such that a performance increase relates linearly to increases in customer satisfaction and outcome behaviours. For a retailer, the key objective is to identify which store attributes may be most responsible for satisfaction (Johnson et al., 2001). Previous marketing literature has suggested several typologies in this regard, using factor analytical statistical or qualitative analysis techniques, and often delineates commonalities across similar types of attributes. On the basis of an in-depth review of this relevant literature, we provide in Table I a summary of the main findings for grocery retailers in particular, in terms of objectives for store attributes and consumers' considerations about those elements, as identified by prior research.

The practical implications of unplanned impulse behaviour are fairly well established in marketing literature, yet whereas some studies suggest unplanned purchases are more numerous than planned purchases (e.g., Pons, 2009), others reveal contrasting evidence (Bell et al., 2008). In turn, some consumers attempt to control their own unplanned shopping behaviours by using shopping lists. For example, in their seminal study of impulse shopping, Kollatt and Willett (1967) find that the use of a shopping list relates significantly to fewer unplanned purchases. Similarly, in a study of U.S. households, Bassett et al. (2008) find that families that actively write a list are less likely to succumb to in-store promotional activities (e.g., Shoham and Makovex, 2003).

The relationship of these ideas to customer satisfaction is not clear in prior research. Satisfaction varies by the type of retailer and type of product offered (Huddleston et al. 2009), as well as by the type of person (e.g., Theodoridis and Chatzipanagiot, 2009), especially in transactional (i.e., one-off) evaluations of satisfaction based on a specific product or service experience (Fornell, 2007). The unplanned nature of some consumption behaviour may suggest additional ways to induce consumers to spend more in-store, which is of vital importance to retailers desperate to find additional benefits.

With this research as our basis, we aim to determine whether different segments of consumers who exhibit varied unplanned purchasing behaviours also are affected in diverse ways by store attributes with regard to their overall satisfaction. Is the influence of store attribute perceptions on customer satisfaction moderated by the consumer's propensity to make unplanned purchases?

TABLE I. Salient store attributes driving grocery store satisfaction

ATTRIBUTES	COMMON RETAIL OBJECTIVES	CONSUMERS' CONSIDERATIONS
<p>Low prices</p> <p>Price deals</p> <p>Other sales promotions</p>	<p>As a determinant of satisfaction (Huddleston, Whipple, Mattick and Lee, 2009), price image has implications for store patronage and strategic decisions related to selecting a target customer base and generating in-store environments (Desai and Talukdar, 2003).</p> <p>Generally low prices are used for certain items (i.e., loss leaders) to attract the most price-sensitive consumers (Dunne and Kahn, 1997).</p> <p>Sales promotion constitutes a commonly tool used by grocery retailers to attract consumers to their stores (Borges, Cliquet and Fady, 2005), and price deals are profitable in the long term (e.g., Kopalle, Mela, and Marsh 1999; Pauwels, Hanssens, and Siddarth 2002).</p> <p>Low prices, price deals, and other sales promotions create a certain store image, which must be evaluated according to the frame of two different pricing policies: everyday low pricing (EDLP) and hi-lo pricing. Retailers using an EDLP policy charge a constant, everyday price with no (or very little and infrequent) temporary price discounts (Monroe, 2003). Those that use a hi-lo pricing strategy set relatively higher everyday prices but provide often and substantial price promotions. Sellers that use an EDLP policy intend to appeal to price-conscious consumers; those that use a hi-lo strategy intend to discriminate between price-sensitive and non-price-sensitive consumers.</p>	<p>In general, price perception operates as a cue to aid consumers in their decision-making processes (Dodds, 1995), especially those with limited information (Rao and Monroe, 1988) or who are indecisive (Tellis and Gaeth, 1990).</p> <p>Price can be a positive cue, indicating quality, prestige and/or status (Gabor and Granger, 1966; Lichtenstein et al., 1993; Oxenfeld, 1974). Low prices or price discounts also can be perceived negatively, in the sense of either an economic sacrifice (Dodds, 1995) or perception of quality (e.g., Dodds et al., 1991; Rao and Monroe, 1989).</p> <p>Store price images usually involve consumers' perceptions or beliefs about the store's overall price levels (Brown, 1969).</p>
<p>Quality of the products offered</p>	<p>Grocery retailers must offer at least the quality expected to facilitate the purchase and use of products by customers, not only to protect them from annoyances but more important to please them (Garvin, 1987).</p> <p>The quality of the products offered is a differentiating element that helps create a certain store image (Binninger, 2007; Pan and Zinkhan, 2006; Theodoridis and Chatzipanagiot, 2009).</p>	<p>Product quality constitutes an essential component in consumers' store evaluations (e.g., Darden and Schwinghammer, 1985; Grewal et al., 2003; Pan and Zinkhan, 2006).</p> <p>In evaluating merchandise-related aspects, product quality is most salient to customers (Hsu, Huang and Swanson, 2010). In various European countries, Juhl et al. (2002) find that product quality is the most relevant attribute of store image. Baltas and Papastathopoulou (2003) find that product quality drives customer choice.</p>
<p>Commercialized brands</p>	<p>Assortment helps the grocery retailer serve a variety of tastes and preferences (Darden and Schwinghammer 1985; Dhar et al., 2001; Pan and Zinkhan, 2006). In addition to improving convenience (Dellaert et al., 1998), an ample assortment helps attract more consumers and stimulates sales.</p> <p>By offering well-known and reputable manufacturer brands, grocery retailers enhance their own image and brand equity. When they substitute private levels, they alter their competitive market positioning (Martenson, 2007).</p> <p>Used as a strategic asset to increase assortment variety, private labels can differentiate the retailer from competing stores and lead in the long term to superior unit sales, margins and profits, as well as enhance the retailer's quality image and flexibility (Binninger, 2007; Corstjens and Lal, 2000; Gómez and Rubio, 2006; Reda, 1995).</p> <p>Thus, it is not surprising that grocery retailers try to enhance the image of their own brands in such a way that they are not perceived as simply an imitation of national brands but instead to acquire their own identity in the marketplace (González Mieres et al., 2006).</p>	<p>Perceptions of product variety influence satisfaction (Hoch et al., 1999), and product variety influences customers' perceptions of a store (van Herpen and Pieters, 2002).</p> <p>A varied product range can reduce the perceived costs (e.g., travel time, effort) associated with each purchase (Dellaert et al., 2008).</p> <p>Consumers can purchase private labels products to obtain a reasonable level of quality (Corstjens and Lal, 2000; Guenzi et al., 2009; Medina, Méndez and Rubio, 2004).</p> <p>Baltas and Papastathopoulou (2003) observe that assortment drives customers' choice.</p>

Location	Distance is unlikely to have a positive effect on customers' satisfaction and shopping. However, some studies have demonstrated ways that retailers can overcome a distance disadvantage. For example, some variable costs (e.g., lower prices, location of the store near other stores as in a shopping centre) can overcome the fixed cost of distance to create a positive influence on customer satisfaction (e.g., Hsu, Huang and Swanson, 2010; Simmie and Sutcliffe, 1994).	Location potentially attracts patrons to a shopping area (e.g., Kim and Jin, 2001), such that consumers generally intend to reduce travel time or distance (Handy, 1992). According to utility maximisation models, travel cost is a disutility, and shoppers generally minimise their travel distances or times to shop for grocery products, attempting to make a minimum effort (e.g., Handy, 1992). Even when households try to minimise travel time though, outshopping may satisfy non-purchasing motivations, especially in terms of store image variables (e.g., Blakney and Sekely, 1994; Fotheringham and Trew, 1993; Stanley and Sewall, 1976).
Customer attention provided by shop assistants	Retail managers in the industry should be vigilant in controlling staff attitudes and reactions to customers (Guenzi et al., 2009); friendly and helpful employees can increase the possibility of satisfactory shopping (Aylott and Mitchell., 1998). Thus, grocery retail managers often try to ensure the shopping experience is associated with a social activity that can alleviate boredom or solitude (Rubenstein and Shaver, 1980). Human interactions between shoppers and staff can be extremely important.	This attribute is one of the most important components in the determination of store image. Martineau (1958) was the first to propose specific dimensions of store image, including sales personnel. Store visits often take the form of recreational activity, which makes the level of service provision more valuable (e.g., Bitner, 1990; Westbrook and Black, 1985), especially those handled by service personnel. Certain consumer groups enjoy speaking and socialising with other clients and staff (e.g., Tauber, 1972). Customers' perceptions of the performance of salespeople constitutes a key factor affecting their satisfaction (Darian et al., 2001).
Additional services	Different definitions imply that customer service consists of diverse measurable elements (Theodoras, Laios and Moschuris, 2005). For example, it may include product availability and after-sales maintenance (Ballou, 1999). La Londe and Zinszer (1976) classify the components of customer service into pre-, transaction and post-transaction components. By offering convenient services, grocery retail managers can achieve competitive positioning (Berry et al., 2002).	Customer perceptions of different customer services have a positive influence on satisfaction with the service overall (Berry et al., 2002; González-Benito and González-Benito, 2005).
Store atmospherics	Because grocery retail managers can use the store atmosphere to attract the desired clientele, it is not surprising that retailers spend a significant time and money to design appropriate store environments to generate images that provide a competitive advantage in the highly competitive marketplace (Joyce and Lambert, 1996).	Pleasure and arousal intentions are relevant mediators between environmental stimuli and consumer responses. A helpful store layout and design can facilitate customers' trip planning, in terms of orientation and direction (Theodoridis and Chatzipanagiot, 2009). Baker's (1986) framework of environmental stimuli (e.g., temperature, scent, noise, music, lighting) shows effects on emotional states of pleasure, arousal and dominance that condition either approach or avoidance behaviour. When pleasant stores are arousing, shopping-related intentions increase (Donovan and Rossiter, 1982). Shoppers relax and feel comfortable due to some store ambience settings (Bellenger and Korgaonkar, 1980; Donovan et al., 1994; Lambert, 1979).

## Data description and hypotheses development

### Sample and data collection

The data were collected through a questionnaire, administered in March 2008. Around this period, Spain began a period of economic decline (e.g., El Economista, 2008; Infobae, 2008), and the behavioural patterns of Spanish consumers began to change in response (e.g., El diario montañés, 2009). Personal interviews revealed the opinions of customers across a wide variety of stores, including hypermarkets, supermarkets, discount stores and convenience stores. The city of Cuenca was selected for the research setting, because it represents a population typical of most cities in Spain (La Caixa, 2008). The non-probabilistic, convenience sampling method produced 422 valid questionnaires, with the specifications listed in Table II.

<i>Universe</i>	<i>52,980 individual residents of the city of Cuenca (Spain)*</i>
<i>Unit sample</i>	<i>Consumers older than 18 years (40,075 people)</i>
<i>Geographic scope</i>	<i>Cuenca capital</i>
<i>Method of information collection</i>	<i>Personal survey</i>
<i>Place for carrying out the survey</i>	<i>Retail food store establishments located in the selected metropolitan area.</i>
<i>Sample size</i>	<i>422</i>
<i>Sample procedure</i>	<i>Non probabilistic: By convenience</i>
<i>Date of field work</i>	<i>17–31 March 2008</i>

Table II. Technical specifications of the questionnaire

\*According to La Caixa (2008)

### Questionnaire, variable measurement and hypotheses development

The questionnaire included variables designed to obtain general information about customer satisfaction, the purchase experience and the respondent's demographic and lifestyle information. Specifically, the first question pertained to overall satisfaction, and Questions 2–11 aimed to measure store attribute perceptions. Respondents rated the store on a five-point scale from 1 (poor) to 5 (excellent). To ensure the reliability and validity of the scales, we borrowed store attributes identified as salient in previous studies (e.g., Gómez et al. 2004). The final question asked whether the respondent used shopping lists when grocery shopping, with three possible responses (always, sometimes, never). Table III summarises the variables and specifies whether they are explanatory, endogenous, or classification variables.

<i>Name of Attribute</i>	<i>Measurement Scale</i>	<i>Type of Variable</i>	<i>Definition</i>
<i>Overall satisfaction</i>	<i>Metric</i>	<i>Endogenous</i>	<i>Overall satisfaction after shopping: Poor (1)–Excellent (5)</i>
<i>Reduced price</i>	<i>Metric</i>	<i>Explanatory</i>	<i>Reduced price perception regarding the whole shopping experience (5-point scale): Poor (1)–Excellent (5)</i>
<i>Sales promotions</i>	<i>Metric</i>	<i>Explanatory</i>	<i>Sales promotion perception regarding the whole shopping experience (5-point scale): Poor (1)–Excellent (5)</i>
<i>Quality of the products served</i>	<i>Metric</i>	<i>Explanatory</i>	<i>Quality perception regarding the whole shopping experience (5-point scale): Poor (1)–Excellent (5)</i>
<i>Commercialised brands</i>	<i>Metric</i>	<i>Explanatory</i>	<i>Commercialised brands perception regarding the whole shopping experience (5-point scale): Poor (1)–Excellent (5)</i>
<i>Proximity to the home</i>	<i>Metric</i>	<i>Explanatory</i>	<i>Proximity perception regarding the whole shopping experience (5-point scale): Poor (1)–Excellent (5)</i>
<i>Assortment</i>	<i>Metric</i>	<i>Explanatory</i>	<i>Assortment perception regarding the whole shopping experience (5-point scale): Poor (1)–Excellent (5)</i>
<i>Customer attention</i>	<i>Metric</i>	<i>Explanatory</i>	<i>Customer attention perception regarding the whole shopping experience (5-point scale): Poor (1)–Excellent (5)</i>
<i>Additional services</i>	<i>Metric</i>	<i>Explanatory</i>	<i>Additional service perception regarding the whole shopping experience (5-point scale): Poor (1)–Excellent (5)</i>
<i>Store atmospherics</i>	<i>Metric</i>	<i>Explanatory</i>	<i>Store atmospherics perception regarding the whole shopping experience (5-point scale): Poor (1)–Excellent (5)</i>
<i>Opening times</i>	<i>Metric</i>	<i>Explanatory</i>	<i>Opening times perception regarding the whole shopping experience (5-point scale): Poor (1)–Excellent (5)</i>
<i>Use of a shopping list</i>	<i>Categorical</i>	<i>Classification</i>	<i>Frequency with which the customer uses a shopping list: (1) Always, (2) Never, (3) Sometimes</i>

Table III. Variables used in the study

The relationship between the explanatory variables in the second group of questions required that we follow the methodology proposed by Gómez et al. (2004). By developing a factorial analysis of the principal components, we identified a reduced set of underlying factors that explained the variance in the observed items. However, prior to carrying out this analysis, we verified sampling adequacy. We used the Kaiser-Meyer-Olkin index measure of sampling adequacy, which provided a value of .760, superior to the established limit. In addition, Bartlett's sphericity was greater than .01, so we can reject the hypothesis that the correlation matrix is an identity matrix, which would indicate that the factor model is inappropriate (George and Mallery, 1995).

The factor analysis offers evidence of a three-factor solution (Table IV) that accounts for 56.45% of the variance. The first factor, "customer services and convenience (CSC)," accounts for 24% of the variance and is associated with the six observed variables: assortment variety, proximity to home, attention to customer, additional services, store atmospherics and opening times. The second factor, "quality image (QI)," accounts for 17.8% of variance and is



associated with the perceived quality of the products offered and brand. Finally, the “economic value of the purchase (EV)” factor accounts for 14.7% of the variance and involves the reduced price and sales promotion variables.

<i>Identified Factor</i>	<i>Reliability Alpha</i>	<i>Survey Elements: Specific Attributes</i>	<i>Factor Loading</i>
<i>Customer services and convenience (CSC)</i>	<i>.75</i>	<i>Assortment variety</i>	<i>.540</i>
		<i>Proximity to the home</i>	<i>.564</i>
		<i>Customer attention</i>	<i>.604</i>
		<i>Additional services</i>	<i>.661</i>
		<i>Store atmospherics</i>	<i>.823</i>
		<i>Opening times</i>	<i>.742</i>
<i>Quality image (QI)</i>	<i>.65</i>	<i>Quality</i>	<i>.650</i>
		<i>Commercialised brands</i>	<i>.772</i>
<i>Economic value of the purchase (EV)</i>	<i>.70</i>	<i>Price</i>	<i>.849</i>
		<i>Promotion</i>	<i>.837</i>

Table IV. Store Factors

These findings corroborate those obtained in several prior studies (e.g., Berné and Martínez, 2007; Binninger, 2006; Gómez et al. 2004; Mittal, Ross and Baldasare, 1998). However, the importance of each factor for predicting satisfaction differs across the product type, organisation and industry (e.g., Grace and O’Cass, 2005; Szymanski and Henard, 2001). We present the following hypotheses, which we test across various shopping list usage patterns:

*H1. Superior perceptions of services and convenience increase customer satisfaction.*

*H2. Superior perceptions of the quality image increase customer satisfaction.*

*H3. Superior perceptions of economic value increase customer satisfaction.*

## Analysis

Table V provides the descriptive statistics for respondents, based on their use of a shopping list (i.e., always, never, sometimes use). The highest score for the CSC factor occurs in the always group, whereas the lowest score is in the sometimes group. The analysis pertaining to the quality image factor reveals that the group with the highest score again is the always group, whereas the lowest score emerges from the never group. Finally, for the economic factor, the highest average again comes from the always group of shoppers, and the sometimes segment reveals the lowest average. The Kruskal Wallis test shows that the first two groups (always and never) are independent of each other and statistically drawn from different populations.

<i>Explanatory Variables</i>	<i>Always (N = 185)</i>	<i>Never (N = 79)</i>	<i>Sometimes (N = 158)</i>	<i>Significance</i>
<i>Average CSC</i>	.169	-.097	-.202	*
<i>(standard deviation)</i>	.997	.977	.998	
<i>(variance)</i>	.994	.956	.997	
<i>(median)</i>	.330	.018	-.123	***
<i>Average QI</i>	.072	-.264	.361	
<i>(standard deviation)</i>	.881	1.110	.890	
<i>(variance)</i>	.777	1.234	.794	
<i>(median)</i>	.057	-.184	.436	***
<i>Average EV</i>	.050	-.017	-.084	
<i>(standard deviation)</i>	.968	1.006	1.063	
<i>(variance)</i>	.937	1.014	1.132	
<i>(median)</i>	.044	.048	.068	
* $p < 0.10$ ; *** $p < 0.01$ .				

Table V. Descriptive Statistics

To test the hypotheses, we analysed four linear parametric regression models: one for the total sample and one for each of the three subsamples according to shopping list usage. In each model, the endogenous variable was overall satisfaction, regressed on each of the three factors. The model parameters were defined by means of the maximum verisimilitude method.

Table VI includes the values of the  $R^2$ , adjusted  $R^2$ , and standard errors obtained for the three groups. The  $R^2$  and adjusted  $R^2$  values are reasonable, considering that the data are cross-sectional. The model with the highest predictive ability is that pertaining to the sometimes group; it explains 25.3% of the variance in customer satisfaction. This group also reveals the lowest standard errors. In contrast, the model with the lowest predictive ability involves the never group, which can only explain 8.1% of the variability.

<i>Customer Sample</i>	<i>R<sup>2</sup></i>	<i>Adjusted R<sup>2</sup></i>	<i>Standard Error</i>
<i>Total sample of customers</i>	.114	.107	.574
<i>Always</i>	.140	.126	.515
<i>Never</i>	.081	.063	.666
<i>Sometimes</i>	.253	.224	.477

Table VI. Model Summary

In addition, Table VII provides the estimated parameters for all three groups and the overall sample. The customer services and convenience (CSC) factor has the greatest

influence on customer satisfaction across all four groups ( $p > 0.05$ ), and the quality image factor (QI) has a positive influence on customer satisfaction in the total group and sometimes category. However, QI is an insignificant predictor in the always and never segments. The economic value (EV) factor only influences customer satisfaction at a significant level ( $p > 0.05$ ) in the never and sometimes groups, though in the former, it is a negative association (Beta =  $-.112$ ).

<i>Estimated Parameters</i>	<i>Model 1: Total Sample</i>	<i>Model 2: Always</i>	<i>Model 3: Never</i>	<i>Model 4: Sometimes</i>
<i>Constant</i>	4.680***	4.696***	4.613	4.755***
<i>CSC</i>	.187***	.199***	.139**	.233***
<i>QI</i>	.082**	.066	.073	.130**
<i>EV</i>	-.016	.019	-.112**	.091*
* $p < 0.10$ ; ** $p < 0.05$ ; *** $p < 0.01$ .				

Table VII. Relation of explained variables and maximum level of satisfaction

The CSC factor significantly predicts customer satisfaction in all groups. For customers who always use a shopping list, the CSC factor even is the only predictor of customer satisfaction. Of those who never use a shopping list, the CSC factor has a positive influence on customer satisfaction, and an increase in the EV factor leads to a small decrease in satisfaction. Finally, in the sometimes customer group, all three factors positively influence customer satisfaction, though the most important factor is CSC. These results thus offer support for the first of our formulated hypotheses, for both the total sample of customers and for all three groups. However, the second hypothesis obtains support only for the total and sometimes groups.

In turn, they imply several interesting results. First, consumers who always use a shopping list are very sure about the specific types of products and services they demand, so their in-store decisions are not influenced by the quality image or economic value they encounter in the store. The factor that these consumers value most is the mix of services and convenience offered by the grocery retailer. The same thing applies to those consumers who never use a shopping list: They are very concerned with the products and services they demand, and their decisions are not affected by the quality image offered by the grocery retailer. Moreover, price discounts and promotions offered by the grocer can even contribute to their disappointment. What they really value is appropriate services and convenience. Finally, among consumers who sometimes use a shopping list, the services and convenience offered by the grocery retailer again have the greatest effect, but they also can be influenced by the quality image of the store and the economic value offered.

Despite a priori expectations that the economic factor would be more important, especially considering the economic downturn the Spanish economy was suffering, this factor indicates

the least importance. It is valued only among customers who sometimes use a shopping list—but even for them, it is the least valued factor. Those who always use a shopping list ignore this factor; even worse, those who never use a list react negatively to it, with lower overall satisfaction. There are several possible explanations for this finding. For example, customers may be disappointed if prices and promotions, as intended by the retailer, induce them to spend more money than they had planned. Random discounts also might create some uncertainty about the economic value of purchases. Moreover, consumers who never use a shopping list might feel insecure about the prices and discounts offered by the store, especially because they might visit stores not to buy planned items but rather to find reduced prices. This group might be disappointed by prices and promotions that fail to meet their expectations.

These findings reinforce the importance of the services and convenience offered by grocery retailers. Retail managers should place special emphasis on the attributes that enhance customer services and convenience. If the grocery retailer wants to foster unplanned purchases in the store, this enhancement is critical, because services and convenience help make consumers feel confident and comfortable within the store, increase the time they spend inside the store and increase the number of items they buy on impulse. Table VIII summarises the hypotheses test results.

<i>Sample Description</i>	<i>Hypotheses</i>
<i>MODEL 1: Total sample of customers</i>	<i>H1 supported</i> <i>H2 supported</i> <i>H3 rejected</i>
<i>MODEL 2: Customers always using a shopping list</i>	<i>H1 supported</i> <i>H2 rejected</i> <i>H3 rejected</i>
<i>MODEL 3: Customers never using a shopping list</i>	<i>H1 supported</i> <i>H2 rejected</i> <i>H3 rejected</i>
<i>MODEL 4: Customers sometimes using a shopping list</i>	<i>H1 supported</i> <i>H2 supported</i> <i>H3 supported</i>

*Table VIII. Summary of Hypotheses*

## **Conclusions, further research and strategic implications**

Customer satisfaction is critical not only for customers but also for retailers in the food industry, because it is key to the success of their strategies, survival and exit. Therefore, retail managers must seek the most adequate resources and capabilities to satisfy their customers,

especially in difficult economic contexts that encourage consumers to seek ways to control their spending.

For example, the current economic downturn makes it necessary for food retailers to seek additional ways to maintain or improve their performance. Some studies have suggested that unplanned purchases may provide an effective solution, because customers make these decisions at the point of sale, and their unplanned purchases tend to be larger in number than planned purchases. However, other research contradicts this claim and suggests that shoppers make fewer unplanned purchases than previous research has indicated.

Therefore, with this research, we have attempted to determine which factors contribute more to customer satisfaction, according to the unplanned purchase behaviour of the customer. This research objective in turn reveals which store attributes and factors food retailers should consider most carefully to enhance their customers' satisfaction. Bearing these goals in mind, we first conducted an in-depth review of relevant literature pertaining to store attributes, unplanned purchase behaviour and their relationship with customer satisfaction. By then conducting a factorial principal components analysis of 422 consumers from a representative Spanish city, we identified three factors that underlie consumers' perceptions of the value of store attributes. Our subsequent parametric linear regression analysis reveals a moderating effect of consumers' unplanned purchase behaviour, as measured by their use of shopping lists.

This study offers a series of conclusions, as well as future research lines pertaining the store attributes and underlying factors that most influence customers' overall satisfaction. Moreover, this work demonstrates the possibility of determining how perceptions of store factors vary, according to consumers' unplanned purchase intentions. This important contribution highlights which store attributes and factors retail managers must address if they want to enhance customer satisfaction across different purchase intentions.

Specifically, consumers who always use a shopping list care about the specific type and deal on the products and services they demand, so they care less about the quality image or economic value of the store. They want services and convenience, as do consumers who never use a shopping list. These consumers also are very conscious of the products and services they demand, and their decisions are not affected by the store's quality image. Moreover, price discounts and promotions bother this consumer group. Finally, consumers who sometimes use a shopping list are affected most by services and convenience, but they also consider the quality image and economic value; therefore, retail managers have more room to manoeuvre with regard to the various store attributes and factors in their effort to enhance these customers' satisfaction.

These findings emerged from data collected at the beginning of a significant economic downturn in the Spanish economy, which seemingly should have increased the importance to the economic factor, in contrast with the results that show it was valued positively (though

least) only by customers who sometimes use a shopping list. Among the other groups, the factor either does not contribute to overall customer satisfaction or has a negative impact. We have offered several possible explanations for this surprising finding.

The findings reinforce the importance of services and convenience though; therefore, to keep customers satisfied, regardless of their unplanned purchasing behaviour, retail managers must develop and communicate value propositions that focus on value-added services, such as higher product assortments, increased distribution intensity, high quality customer attention programs, additional services, enhanced store atmosphere conditions and longer operating hours. Large assortments benefit consumers by providing them with many choices; increasing the availability of physical stores or extending into online channels, especially for fast moving consumer goods, can stimulate sales by fostering wider consumer recognition and impulse buying. An effective customer satisfaction management program, as part of the retailer's customer relationship management strategy, can ensure employees work in a positive, fair environment and motivate them to take care of customers. Additional services, such as advice, home delivery or free parking, can also increase store attraction, and once customers are inside, a positive atmosphere can improve their shopping experience. Finally, extending the operating hours can influence the level of consumer demand.

In addition, grocery retailers should develop a coherent price and promotion strategy to avoid the potential for customer inconvenience. Managers should plan the price image they want to communicate, as well as the promotions they will offer (e.g., type, magnitude), and ensure they are totally consistent with both the desired price image and the pricing policy. For example, price discounts and sales promotions are more aligned with a hi-lo pricing policy. The low valuation expressed by our respondents with regard to the economic value factor might be an indication of the greater convenience of EDLP.

We also recognise questions that remain to be addressed in this research context. Further work might analyse the influence of the detected factors on the degree of loyalty consumers exhibit toward certain commercial formats or specific establishments. We also propose to assess how the identified factors might influence in the degree of selection in certain product categories, particularly in terms of the frequency of purchase. Finally, in noting the relatively low variance explained by the models, we recommend further analysis that incorporates other potential explanatory variables related to store attributes, such as the speed of checkout, accuracy of scanned prices, availability of fresh food, and so on. These factors may be of great relevance for assessments of customer satisfaction.

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## EUROPEAN WIDE NEW LOGISTICS NETWORK

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### Abstract

Installation of a European wide new logistics network at the border to the Central Eastern European countries, through the connection of six centred located areas in Europe. An historical approach on the Central Eastern European Countries with an analyse of the trade and transportation figures on the example of Slovenia opens up the futures research fields on a European wide logistics network. The given problems on road infrastructure in Europe show the importance to guide the growth of transportation figures intelligently. The approach of a European wide logistics network could be an answer on this problem. An overall approach to the logistics network in Central Eastern Europe hasn't been made, as well as studies on Central Eastern European Countries of logistics and trade are rare to find. This paper asks more questions as it can answer. More researches has to be made up to shown the real implications and to point out the projects which has to be realized to establish this network. This approach will have great implications on today's European logistics network as well as on the used transport modes. An installation of this European wide logistics network will change also the workers situation a lot. This approach will have impacts on location decisions as well as on new working places.

**Keywords:** Central Eastern European Countries, Adrian Sea, logistical networks, trade routes, logistics banana, European logistical hub networks

### Introduction

The political changes in Central Europe at the end of the 90ies of the last century brought back former border areas together. The integration of the Central Eastern European Countries (CEE) in to the European Union influenced and changed the border areas in particular and freed them from their shadow image. The iron curtain cut of former trade routes, today logistics networks for about 50 years. Through the opening of the iron curtain the logistics network of Europe changed massively. The opportunities of new markets and opened

borders established new trade routes and rebuilt old ones. These trade routes help former divided regions to grow in different ways and in different velocities influenced by their own production and exchange capability. At the end of this process the former divided areas are, from the logistical and economical perspective, strongly linked together. One area, which was strongly influenced by this process of growing together, is the border region between five countries in the middle of Europe Austria, Italy, Slovenia, Hungary and Croatia. In the further abstract this region is called the quintet.

## Background

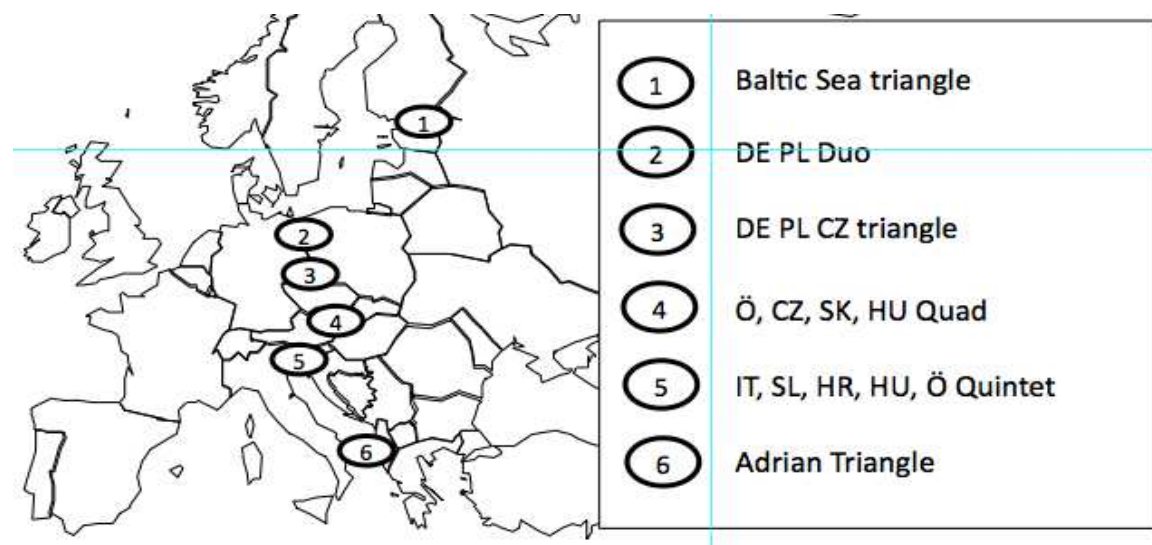
The opening of the iron curtain changed the European logistics networks totally, the old middle of western Europe, the Benelux countries, weren't any more in the middle of the new Europe. Before the opening of the iron curtain the logistical network was centred in the Benelux (Belgium, Netherlands, Luxemburg) Countries (Rushton/ Walker, 2007). Almost every logistics company had its headquarter in one of this countries. In these countries also the main European harbours, Amsterdam, Rotterdam and Antwerp (ARA Harbours) are located (Göpfert, 2008). The industrial centres of Europe were and are located in a Banana shape from the north of Germany via the Benelux, the Ruhr Region in Germany over the north of France to the north west of Italy. The axe formed also the main transportation routes from north to the south. One of the main corridors in this context is the river Rhine and the highway and train corridors from the north of Germany to north Italy via France, Switzerland and Austria (Göpfert, 2008). After the opening of the iron curtain the logistical network had to face a substantial change. With the economic growth in the CEE Countries and the South Eastern European (SEE) Countries the transportation direction changed from the Northern Southern perspective also into the Easter Western. As the harbours still stayed in the Benelux Countries and in the northern part of Germany (e.g. Hamburg, Bremerhaven,...) the distance from these harbours to the new costumers in the CEE and SEE Countries was longer than Distances which were known in the "Old" Europe. Distances from more the 1.000 Kilometres weren't so unusual anymore. To get on one hand more close to the new costumers in the East and South and to offer them a high level of distribution quality, new hotspots of logistical infrastructure and facilities are needed. On the other hand it's more functional and cheaper to operate with regional hubs (Mau 2003). The distance between 600 and 1.500 km from the ARA harbours has its special advantages, because here an efficient use of railway infrastructure is possible. Between the harbours and the shown hotspots the railway infrastructure is firstly in good shape and has secondly free capacities. On the long term the possibility to build up a high-speed railway goods network is given and these regions have the chance to form a hub in this network. These logistical hotspots in the middle of Europe are from north to south:

- The Baltic Sea triangle between Finland, Russia and Estonia,
- The German Polish duo between Berlin and the Polish City Poznan,

- The triangle between South Eastern Germany, the Czech Republic and Poland,
- The quad between Austria, the Czech and the Slovak Republic and Hungary,
- The quintet between Italy, Slovenia, Austria, Hungary and Croatia
- The Adrian Sea quad especially between Italy, Montenegro, Albania and Greece.

Below the quintet between Italy, Slovenia, Austria, Hungary and Croatia will be analysed more carefully.

Illustration 1: Map of Europe with the highlighted hub regions



Source: Own Contribution

*The quintet between Italy, Austria, Slovenia, Hungary and Croatia*

A hub region of special interest, as shown in the previous chapters, is the area between Italy, Slovenia, Austria, Hungary and Croatia. Here at the former territory of the Greece, the Romaine and Venice Empire this hotspot could build to a certain extent on a historical common sense. The second advantage of this region is the location next to the Adrian Sea. This location has the possibility to unload over sea ships from East Asia. The way via the Suez channel to e.g. the harbour of Koper instead of to one of the ARA Harbours is 5 days shorter (Gtai 2010). This new possibility to unload ships in the region can relieve the overcrowded harbours in the Benelux. Furthermore this location has with approximately 10 million costumers a huge demand of goods. The next advantage of being next to the Adrian Sea lies in the possibility that the Adrian Sea can also be used for short sea shipping services (European Commission 2005).

With this historical background and the geographical characteristics the region is nowadays the base to built on a new logistical hub in the region. The region is like other former boarder regions due to its geographical location dedicated to host the “bridge” to the new Europe.

As we have seen a good access to the European wide transport infrastructure is needed to build up a hub. From this point of view some project have been realised in the last years. For Example die Highway from Italy via Slovenia to Croatia was built. Other road infrastructure projects are planned to build in the next years like the highway connection between Ptuj in Slovenia and Macelj in Croatia or a third north south corridor.

Illustration 2: Infrastructure of the quintet hub region



Source: Google Maps (2010)

In the next 2 years the highway system of Slovenia will be completed. The railway infrastructure in the region needs more investments. In the next 10 years a new railway between Trieste (connection to Italy's infrastructure) and Koper (overseas harbour), will be realized. This track is part of TEN-T project no. 6 a transportation axis from the south of France to the Ukrainian boarder (European Commission, 2005). Also the third pier to handle containers at the harbour of Koper is in process (Gtai, 2010). Another project is the motorways of the sea, a project to strengthen the ship network on the seas around Europe to disburden the road and railways systems. One core area in this project is the Adrian Sea (European Commission, 2005).

### Trading exchanges

At the example of the trade balances of Slovenia a description of the transport streams is done. More than 70% of the foreign trade Slovenia made in 2008 with one of the 27 Members of the European Union. On the other hand that shows that more the 25% of the foreign trade



has been made in 2008 with Non Members of the European Union (Gtai, 2009). Two of the non European Union members can be explained geographical and historical, Croatia and Serbia (Gtai, 2009). Further it can be seen that the foreign trade is growing in the last years massively. Lately the imports have grown from the year 2005 to 2008 from 15.811 to 23.003 Million Euros (Gtai, 2009). That is a growth from more than 45% within three years. The exports are a little smaller, but grew with the same velocity. The products which are mainly exchanged are cars and other vehicles for the street, chemical products and machinery goods (Gtai, 2009). A conclusion out of these figures could be that for the most of these products an efficient transportation with the railway system would be preferable. A look into the transportation figures shows another image. Less than 23% of all the goods transported in Slovenia were transported with the railway (Eurostat, 2006). For a small country in Eastern Europe, that figure is quite low. Other countries with the almost the same size like Slovakia (29,5%), Hungary (25%) or the Czech Republic (25,4%) have higher railway transportation figures (Eurostat 2006). Slovakia and Hungary have with the connection to the river Danube also another possibility to transport mass goods. A rise of the transported goods can also be seen in the statistics. After a fall of transportations from 1995 to 2002 the number reached in 2004 its old figure from 1995 and topped this figure of 11% in 2005 (Eurostat, 2006).

## Conclusion and Outlook

As shown in the last chapter a variety of different projects in the quintet have been realized, are in realization or are planned to be realized in the future. These projects will complete the road and highway system in Slovenia and the countries around. A greater impact will be realized by the projects of the railway infrastructure. With these substantial changes in the infrastructure network a strong hub can be established in the quintet. Furthermore with a good connection to the other hotspots in the middle of Europe the transport direction in Europe could change through the years. Second the possibility to have a strong harbour network in the region would change the international transport into Europe. The harbour in Koper together with the harbours in Venice (Italy) and Rijka (Croatia) could stand for such a new gateway into Europe.

Some Questions couldn't be answered in this paper and need some more researches.

In the first chapter a picture of a new hub system in CEE Countries was drawn. Further researches have to be done to characterise these six areas and to point out their things in common and their differences, to see what ideas one area can learn from another or to avoid mistakes, which had been made another area. An analyse of the traditional internationalization theories and theories of international logistics networks in comparison to the new approach of the regional hubs has to be made, to shown parallel and divergent goals. The logistical effect in the hub region has to be analysed to measure the benefits of installing for such a hub region. Another research field has to deal with the question of uses of transportation mode. Why was the road system so strong and why was it made stronger by



the government due to the subsidence. And why could not the railroad system build on the strong historical background, which was formed under the K&K monarchy and was strengthened while the communistic times in the CEE and SEE Countries. This research field has also to deal with the question, how the transportation mode will look like in the future. Can the described logistics hub network with the help of the railway infrastructure can be installed and the movement of the logistics banana into the East is only a question of time.

The last research field would deal with time question of duration of these hubs. Will they stay for a longer period or will these hubs move back into the west or more into the east and how long a period can last.

## Biography

**Prof. Dr. Markus Mau** studied Business Economics at the Technical University in Darmstadt and the Goethe-University in Frankfurt, Germany. After more than 5 years in the industry he completed his doctoral studies at the Justus Liebig University in Giessen. After that he joined the University as a full time-researcher and continued on his postdoctoral studies (habilitation) at Justus Liebig University. Since 2006 he is Chair at Alanus University. He does international research with colleagues from the US, Mexico and within Europe and is member of the German Standardization Organization (DIN) for environmental certifications..

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## USING SOCIAL NETWORKS AS A PROMOTIONAL TOOL FOR HIGHER EDUCATION INSTITUTIONS

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### Abstract

Looking beyond the basic use of a traditional website, this paper aims to address the proposition of how higher education institutions could use social networks as an effective promotional tool. A research which examined the relationship that students have with social networks was carried out, and some suggestions have been provided as to how higher education institutions can use social networks to communicate with prospective as well as existing students. Empirical data was collected through a quantitative (online questionnaire) study, with 100 prospective and existing higher education students. The analysis of the research relied on descriptive statistics. The results show that students are heavy users of social networks, with a preference towards the use of Facebook. Prospective students also look for information of universities on social networks. Moreover, prospective students appear to use social networks for different reasons than existing students. The method used for the choice of the sample (non probability) as well as the sample size could be considered as a research limitation. In addition, the research relied mainly on discussing one social network (Facebook) and therefore the results cannot be generalised as an assessment of social networks in general. This study is an attempt to help higher education institution practitioners to better promote their offerings by including in their integrating marketing communications social networks.

**Keywords:** promotion, e-commerce, social networks, higher education, universities, Facebook

### Introduction

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 (Turban et al, 2004). E-commerce and the use of the Internet in various industries, has benefited both consumers and companies as it allows a faster, easier, convenient and flexible provision of goods and services.

In addition to providing goods and services, the internet also serves as an important promotional tool. By connecting millions of computers around the world it allows people to communicate continuously. The organizational long term success of promotional campaigns

and the integration of marketing communications are affected by the effective use of information communication technologies, including the use of the Internet. Internet technology, as a source of communication, had become an important and exploring tool for marketers in the past. Today, the Internet implementation in the marketing process is inexpensive, delivers instant international reach, offers great real time feedback and reaches millions of people for whom the Web is the centre of virtually all communications. This also means changes in the marketing domain of planning, strategy creation and especially in market communication (Vasiljev et al, 2007), suggesting also huge potential for marketing (Jefkins, 2000; Brassington and Pettitt, 2007). Companies around the world use the Internet and design sophisticated, attractive, and many times, interactive websites to promote and sell their products online to a larger spectrum of customers. This trend is becoming increasingly popular and is now highly used.

A natural extension of e-commerce is social media. The Chartered Institute of Public Relations (2010) define social media as the term commonly given to websites, online tools and other interactive communication technologies which allow users to interact with each other in some way, either by sharing information, opinions, knowledge or interests. Social networks (hereinafter SNs) fall into the general category of social media. With the emergence of social media, companies are now going beyond simply maintaining a website for basic transactional purposes and traditional promotion. They are rather finding new ways to interact with customers, in search of a more long term relationship rather than a once-off sale relationship or one-way communication which most websites may be confined to.

As the competition among institutions in the higher education sector intensifies, they increasingly behave as corporations (Jarvis, 2000). This behaviour of higher education institutions (hereinafter HEIs), behaving as corporations and adopting among other things, marketisation strategies, is characterised by some as being unethical, as being against the very values that institutions hold sacred (Wragg, 1993; Nicholls et al., 1995). However, if correctly understood and correctly applied by professionals in education, marketing can be beneficial rather than harmful (Harvey and Busher, 1996) since it could enable institutions to better understand their market and therefore better cater for their needs, resulting in more satisfied customers.

HEIs just like any other company need to find ways to promote their offerings, but also interact with their audience. Davies (1998:1) suggests that "one of the ways higher education will seek to be effective on a global basis will be through the efficient use of new communications technology". This paper aims to address the proposition of how HEIs could use social media, and specifically SNs, as an effective promotional tool.

## **Literature Review**

One of the fundamental objectives of marketing is to develop relationships with customers. The internet is no longer only to find information; it is there to enable companies to more

effectively engage in relationship building. According to Gummesson (2008) relationship building is the interaction in networks of relationships. The internet can be used to create this network of relationships. Carter (2009) believes that one of the best ways to form relationships and create influencer value is by going socially since now the market has evolved. The Web 2.0, or Marketing 2.0, is a powerful mix of new and traditional marketing tactics where it allows people to share, collaborate, participate and co-create forming relationships (Carter, 2009; Tomilson, 2008; Weber, 2007).

The need for this creation of relationships has also brought about the rise of SNs. Social networking is used to create awareness and ultimately relationship building. It is clear how the marketing mix, relationship building, the internet and SNs make a perfect combination when they mix together. Although some may disagree with the notion that social networking may not be suitable for developing business relationships (Hayes, 2008), nonetheless, the supporters of SNs outnumber the criticsers (Ellison et al., 2007; Fulgoni, 2007; Ofcom, 2008).

According to the E-consultancy report (2009) social networking exploded during 2007 and 2008, mainly because of the immediacy of the internet together with the ease of communicating to a huge audience with a strong desire for self-expression. It is this explosion that has caused many companies to realise the marketing potential of SNs. Although this sudden explosion may have taken many by surprise, the effectiveness of SNs may not be as quick to reveal. Young (2008) believes that just like any other relationship, the relationships formed through SNs take time to show their value, and thus companies need to remain committed to it in order to reap these benefits.

Currently there are a number of SNs: to name a few, Facebook [as according to Mintel (2008) the leader in the SN market], Bebo, MySpace, Hi5, LinkedIn. Facebook was the seventh most popular site on the World Wide Web with respect to total page views (Ellison et al., 2007). SN sites have different focuses; LinkedIn is oriented towards work related contexts; MySpace was mainly created for unknown musicians to get their music heard; Bebo is targeted for young teenagers. Facebook has perhaps almost all the university student population, which was also the original purpose for the formation of this social networking site. A recent report by Mintel (2010) suggests that online social networking is expanding with 248 million unique monthly users in December 2009. Furthermore, the marketing spend on SN sites has also increased by 166% from 2007, thus reaching \$2.4 billion in 2009 (Mintel, 2010). Facebook groups, for example, can grow at an incredible pace, and it has been known for groups to have formed and grown to more than one million members in just one week (Holzner, 2009).

## Methodology

Looking beyond the basic use of a traditional website, this paper seeks to address the proposition of how HEIs could use SNs as an effective promotional tool. The aim of this research was to provide an overall understanding of prospective and existing HE students'

use of SNs. A number of objectives were set in order to achieve the overall aim of the study. Namely, the first objective was to identify the most preferred SN site among students, and the frequency of SN use. The second objective sought to evaluate the level of SN use for gathering information regarding HEIs. Identifying the purpose of use of SN sites was a third objective. The final objective aimed to identify students' most preferred method of communication.

In order to achieve the aim of the study, an initial literature review was carried out in the areas of Social Media, and in particular SNs. The objectives of the study called for a quantitative study, and with the assistance of 100 prospective and existing HE students, significant findings have emerged. The sample was chosen by following a non-probability approach (self-selection).

The questionnaire was structured and was made available online. The authors had posted the questionnaire online (on a specific SN personal site) and users were asked if they were interested to complete the online questionnaire. Quick response time is a known advantage for online research, and as such, being available online the responses for this study were collected in a little over a week. The final sample group was comprised of 62 females and 38 males, and the majority of respondents (57) were prospective students, and the remaining (43) were existing students. In addition, most respondents were in the 18-21 age group (76), 21 were between 22-25, and 3 were between 26-30.

## **Results**

### **Most Preferred Social Networking Site and Frequency of Use**

The first objective was to identify the most preferred SN site among students, and the frequency of SN use. The findings suggest that among seven different SNs, Facebook seems to be the most popular as indicated by 94.8% of the respondents (figure 1). These findings are in line with the views of Ellison et al. (2007) which state that Facebook is the top leader in the SNs having a high population amongst students. The second preferred SN among the sample [although with a vast difference] is MySpace (24.1%) followed closely by Twitter (20.7%) and Bebo (12.1%). These results show a clear and unmistakable preference towards the use of Facebook as the most preferred SN among prospective and existing students.

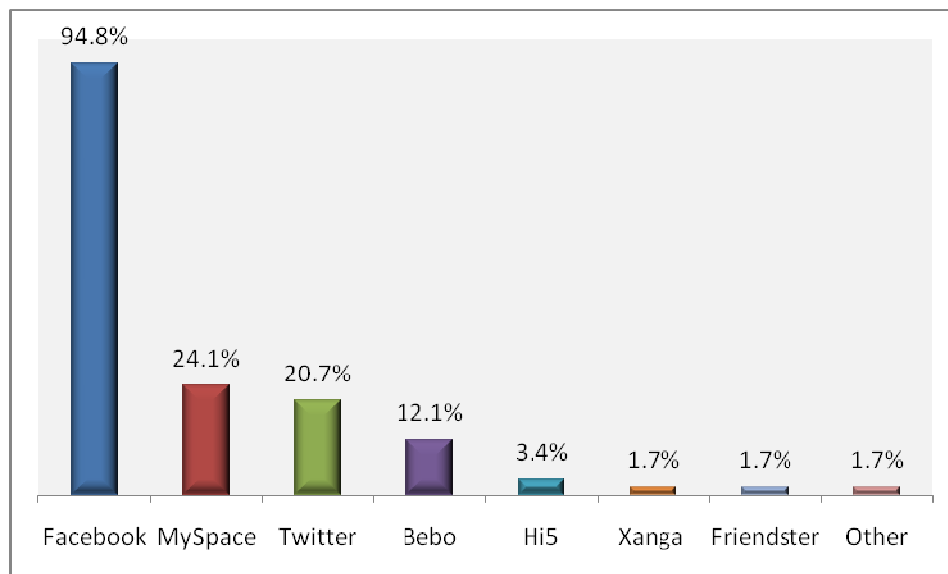


Figure 1. Use of Social Network Sites

Source: compiled by authors

Moreover, the results propose that users of SNs can be characterised as ‘heavy users’, since when asked about the frequency of their SN use, 52% of the respondents stated that they use it more than twice a day and 33% stated that they use SNs at least once a day. A further 15% stated that they use SNs two to three times a week. A study carried out by Rasking (2006) also showed this similarity in usage, and in particular found that students check their profile pages daily and the majority are even obsessed with Facebook. This high usage frequency may easily imply that loyalty to various SN pages is apparent, a finding which was also expressed by Mintel (2008).

#### Level of Use of Social Networks for Gathering Information about Higher Education Institutions

A second objective of this research was to evaluate the level of SN use for gathering information regarding HEIs. The majority of respondents either strongly agree, or agree, that by joining a University SN they can find out more about the university and university life in general instead of through a university’s website or prospectus (83%). Moreover, students also stated that through a SN they can easily share information about a course (96%), about the city (93%), and about the university (93%). Hence, providing more information about a university, especially for prospective students, may play a significant role in their decision making when choosing an HEI.

With regards to their decision to choose a specific University, when asked whether they trust the opinion of friends/peers more than the information they see or hear on advertisements, the majority of respondents agreed (88%). This result may suggest that the use of SNs enables word-of-mouth. According to Sohn (2009) students rely on computer-mediated word-of-mouth. A comment being made about a university related issue (whether

this is a positive or negative comment) can, through SNs, be passed to hundreds of users instantaneously - this is the power of word-of-mouth. Students today, either prospective or existing students, have increased opportunities for accessing and participating in word-of-mouth about university courses (Sohn, 2009) and these word-of-mouth sources are indeed more influential than many promotional techniques according to Schindler and Bickart (2001).

### **Purpose of Use of Social Network Sites**

The third objective set aimed in understanding the purpose of use of SN sites. By examining the responses provided by prospective students, it seemed that most students (81%) use a SN to learn more about the university in which they are interested in (figure 2). Second main reason (69%) provided was to learn more about a course which they are interested in. 67% appear to have used SN sites to learn more about accommodation halls provided by the various HEIs. It is evident that many also use it to make friends through a SN (56%). Moreover, prospective students use SNs to find out information about a city where a HEI is in (50%). 42% of the prospective students admit to have used a SN to find information regarding the nightlife and to view photos of either the HEI or other students studying at an HEI. The results show that the main reasons why prospective students use SNs are to find out more information relating to an HEI – whether this information is about the HEI itself, specific courses, accommodation, the city it is situation in, or even find out about lecturers of an HEI. Reasons associated with social life, seem to come in second place. A similar study carried out by Snyder (2008) also indicated that prospective students usually use SNs to search for an HEI, to learn more about issues relating to admissions and financial aid, to take a virtual tour, get insights on campus life, and so on.

	<i>Prospective Students</i>		<i>Existing Students</i>
<i>Learn more about the university</i>	81%	<i>Keep in touch</i>	89%
<i>Learn more about my course</i>	69%	<i>View photos</i>	69%
<i>Find out about accommodation</i>	67%	<i>Post photos</i>	65%
<i>Make friends through groups</i>	56%	<i>Make plans</i>	54%
<i>Find out about the city</i>	50%	<i>Check out people</i>	50%
<i>Find out about nightlife in the city</i>	42%	<i>For entertainment</i>	50%
<i>View photos</i>	42%	<i>For distraction</i>	39%
<i>Keep in touch</i>	36%	<i>Keep updated on course material</i>	35%
<i>Find out what lecturers are like</i>	28%	<i>Make friends through groups</i>	35%
<i>Learn about various events</i>	22%	<i>Learn about various events</i>	27%
<i>For entertainment</i>	19%	<i>Find out about nightlife in the city</i>	15%
<i>Check out people</i>	14%	<i>Learn more about the university</i>	8%
<i>Post photos</i>	14%	<i>Find out about the city</i>	4%
<i>Make plans</i>	11%	<i>Find out what lecturers are like</i>	4%
<i>For distraction</i>	3%	<i>Find out about accommodation</i>	0%
<i>Other</i>	3%	<i>Other</i>	0%

Figure 2. Purpose of Use of Social Network Sites (by Prospective and Existing Students)

Source: compiled by authors

On SN sites, students engage in social behaviour (Ellison, 2007); they may exchange information with classmates about their courses, they keep in touch with friends, make new friends and view and post photos (Taylor and Stern, 2007). Indeed, by examining the results of existing students, the results show just that. The most important reasons for using SNs for existing students do not evolve around their HEI but around their social life – quite opposite to prospective students. They use SNs far less for gathering information about the university or their course but it appears that once they are in an HEI, their priority then turns to their social life. Most existing students use SNs to keep in touch with friends/family (89%). They also use SNs to upload and share photos (69% and 65% respectively) and to organise nights out (54%).

### Preferred Method of Communication

Finally, the last objective of the study aimed to identify the most preferred method of communication among students. Heldmans (2008) believes that SNs are mainly used as a means of communication since SN sites are truly changing the fabric of the internet, gaining ground and credibility among prospective college students as ‘the way to communicate’. The current study however showed that students mostly prefer to communicate through phone (43%). This first choice is closely followed by the preferred method of communicating through SNs (36%). The least preferred method is communicating via email (21%). It is interesting to note that not even one student mentioned that they would like to receive



communication through the mail. This causes concern and questions for those HEIs which still insist on sending out brochures through the mail, and certainly wasting large amounts of money for post and printing. When asked whether they think it to be a good idea for HEIs to promote themselves through SNs almost all students agreed (95%), clearly indicating their preference towards this method of communication. As an alternative method of communication, the respondents were asked whether they would become 'friends' with a particular HEI, and the vast majority seemed to be very receptive to this idea (95%). This shows that SNs could be a helpful tool for both existing and prospective students.

## Discussion and Conclusion

Companies, in order to remain competitive, should be moving together with the pace of technology. A solid understanding of how various promotional tools can be used to embrace this technology is required, since this will probably result in better communication with companies' target audiences. This paper sought to provide an understanding of students' use of SNs and based on this understanding proposition as to how HEIs could use SNs as an effective promotional tool.

The results suggest that among the various SN sites available, there is a clear and unmistakable preference towards the use of Facebook as the most preferred SN among prospective and existing students. The implication for HE practitioners may be that Facebook can be the specific SN site to be used to in order to reach their audience. HEIs can create a Facebook group and students can then form a social relationship with them [their universities] by joining this group. By being members of this university group, they can post comments to university 'walls' or profiles which are viewed by already existing members of the university, or the general public. Members are in direct contact with the university, and with other members of the university – whether these members are staff, faculty, or current or prospective students.

Respondents have also stated that they use SNs to gather information about an HEI. Facebook allows students to share information between them about general university information, or even specific information with regards to their degrees, their lecturers, their queries or even overall opinion about the university. Moreover, members can use the site to communicate with friends or meet new people, and they can join virtual groups based on common interests – perhaps classmates with whom they may share a lesson with (Ellison et al., 2007).

When asked whether they trust the opinion of friends/peers with regards to information about a specific University, more than the information they see or hear on advertisements, the majority of respondents agreed. This result suggests that SNs enable word-of-mouth, and this word-of-mouth is indeed very effective. HEIs should take advantage of this instantaneous spread of information through SNs and even deliberately encourage students or other people to share information about their products or services. They have the power to spread

information directly to their target audience, by their target audience, and perhaps have an even more substantial impact, or considered more trustworthy, since it is not directly coming from the universities, although perhaps subtly stemming from the university. Furthermore, HEIs can monitor what information is being exchanged by users and directly address these issues especially when dealing with any negative comments. SNs offer a plethora of activities which could not have been possible before the internet with such great ease at least, and even with simply a website, is still not possible.

The purpose of use of SNs appears to be different among prospective and existing students. The findings of the study show that the main reasons why prospective students use SNs are to find out more information relating to an HEI – whether this information is about the HEI itself, specific courses, accommodation, the city it is situated in, or even find out about lecturers of an HEI. Existing students, on the other hand mainly use SNs to keep in touch with friends/family, to upload and share photos and to organise nights out. The results may not necessarily mean that prospective students do not place such high emphasis in social life. Rather this could imply a few possibilities. First it could mean that perhaps prospective students are not yet in the habit of working online. Traditionally, high school work does not necessarily need extensive use of computers (i.e. typed out assignments, internet search for bibliography, blackboard, etc.). Thus they may not be using computers in the first place as heavily as existing students, and thus merely use SNs to gather information for their decision relating to their HE choices. Existing students on the other hand, having to rely on computers much more, may be more inclined to use SNs overall because of their increased use of computers.

Another possibility could be that still living at home, do not have such need to use SNs to stay in touch with family or friends. Students on the other hand, may feel a greater need to find some sort of way to stay in touch either with family, or friends, especially when studying at an HEI overseas are far away from home. Also, with the low prices in internet connection, it may appear more 'cost effective' for students to communicate through SNs.

From the findings, it could be gathered that a different marketing strategy should be adopted on SNs as well, with acquisition strategies focusing on prospective students, and retention strategies focusing on existing students. Since prospective students may use SNs to find information regarding the university they are interested in, there could be specific information which would deal with this area of information search. For instance, a university group in Facebook should clearly have links which direct users to the official website of the HEI so that students wishing to find detailed information will be routed there. Similarly, on a university official website, there may also be a link which directs people to the SN, and from there prospective students may find information about the university, but coming directly from other students through their comments. For existing students, a university SN group

could offer them possibilities for sharing photos, videos, news and accessing information specifically related to their courses.

A final result stemming from the study suggests that students most preferred method of communication is the phone and the least preferred being via email. Phones today however, are 'smartphones' meaning that phones are no longer limited to imply making phone calls, but they are able to now perform most of the functions that a computer offers. Hence, phones are used to also access the internet and from there on a SN. This suggests an interesting implication for practitioners since they are not only reaching their target audience quicker, but also direct to one of their most personal devices. Sending information through mail, a practise which is done by many HEIs, causes many questions since no student mentioned this as a preferred method of communication.

While using SNs could result in a number of benefits for HEIs nevertheless particular attention should be invested in order to use this technology correctly. It is important that HEIs should consider this a long term commitment – not only contribute and join in these sites, but also listen to what is being said and learn (Simon 2008). HEIs should do their own research since SNs will produce a plethora of information which could be overwhelming. This may call for a careful social media monitoring strategy to follow (Poynton, 2009), which should include a strategy for monitoring also specifically SNs.

Social media is no longer simply a buzz word but a strategic tool (Eyrich et al. 2008). Hence, just like any other strategic action that needs to be taken for any company, this too needs to receive the special attention it requires in order to reach its maximum potential. HEIs may not only be limited with simply participating in SNs, for example, they may use Facebook to gather information with regards to prospective and current students (Ofcom, 2008).

## **Future Research**

Future research could possibly investigate how students perceive a HEIs presence in various SNs, what activities students (existing or potential) would like to see their HEI engaging in through SNs, and perhaps how HEI members (faculty or staff) may feel with their own presence or their employer (HEI) being present and active in various SNs. Finally, the authors are suggesting that future research may be carried out with a larger and even more diverse sample group, and users from the different SNs could be targeted. Furthermore, a future probability sampling approach could be used so as to provide more statistical validity and reliability to the results. Moreover, future qualitative studies could also be undertaken in order to further provide a deeper insight into students' social networking behaviour.

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## CREATIVITY IN BUSINESS SCHOOLS- POST FINANCIAL CRISIS IMPLICATIONS

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### Abstract

We aim to highlight for the first time creativity's vital role not only for Europe's economic prosperity and crisis recovery, but also for our social and individual well-being. This calls for a new approach from the education world which can improve the current university instructional strategies.

The paper seeks to provide some answers/"solutions", in a synthetic format, focusing on a three dimensions of creativity: (a) where to play the game of creativity; (b) how to deliver creativity to business students, meaning by what structures and methods (Osborn, 1971); and (c) how to win in implementing this game (Porter, 1985). Our paper offers a theoretical framework emerged from literature review and personal business and educational experiences of the authors. This framework becomes essential in promoting a sustainable business world by locking the element of "creativity" as the driving success factor.

Many researchers appeared to focus on making their findings applicable to the entire education system paying little attention to issues specific to the business education sector. Succinctly, the how to do part, provides several realistic insights on how to connect communities into the game of creativity, on the methods required in striving for improvement and in developing responsibility, on balancing creativity with core essentials, promoting excellence and sustainable quality, networking between students, faculty, management and community, improving learning environment, developing staff, teaching, learning competencies and programme curricula under an integrated service vision, anticipating educational future trends in networking and building creative climates and partnerships.

The paper conclusions and recommendations seek to succeed in recognizing a range of good practices through the explicit and implicit identification of core characteristics for creativity in higher education. Eventually, the first mission in wanting to be creative is to really comprehend the problem, knowing all the basic ways to approach it. If you don't know what's inside the box, then you really aren't ready to think outside it.

**Keywords:** higher education, creativity, innovation, financial crisis

## Introduction

As the global economy is trying to recover from the worst economic crisis since World War II, policymakers face both challenges and opportunities in 2010. The challenges include disturbingly high unemployment in many economies, unfinished reforms in several sectors, including financial restructuring, legislation and education and eventually fighting poverty and social exclusion.

On the other hand, opportunities arise from laying the foundation for sustainable economic growth and they are triggered in the short-term by fostering international trade and cooperation, while in the medium term by improving households' access to credit and further support of the social-insurance system.

However, the only long term sustainable growth relies on the restructuring of the financial system and recovery of the investment and consumption markets, as this latest crisis was relevant to overconsumption- overspending- overleveraging. The way to address sustainable growth uses specialized socio-economic, financial and fiscal techniques, but in essence, the long term indirect engine is the *continuous adaptation to change* in all sectors of the economy, and, now more than ever, on the reforms of the education system.

The fundamental reason for this view is that education and business education in particular is the incipient economy booster which provides all the mechanisms required for generating radical innovations. It has been shown over the past 30 years that the closest to business and economy, Universities are the highest in providing growth and technological development. In advanced economies, universities have pioneered and spearheaded the quest for global competitiveness, supplying business technological breakthroughs and committing themselves to big economic payoffs. The only way to grasp such opportunities and deliver such results was by using creativity applied to business, in other words, *innovation*.

The year 2009 has been designated as the European Year of Creativity and Innovation. Creativity has been recognized as a major factor for effectively addressing current issues as well as the key driving force towards *knowledge creation* in an ever increasing knowledge society.

Higher Education Institutions are still the primary environmental source of creativity modeling and release, which can further be described as serving as a frame of *expectations* upon which much human action regularly depends. These Institutions' value is inferred by *their ability to coordinate significant information into knowledge of potential outcomes outside of any general decision process*. In the New Institutional Economics framework, institutions are coordinating mechanisms of human behaviour or "rules of the game" under which economic activities are undertaken (North, 1994).

However, these frames do not guarantee certainty but rather provide guidelines to *possible outcomes*, or "points of orientation" (Lachmann, 1971). Stated differently, these Institutions

reduce the transaction costs associated with obtaining *specific knowledge*, as an outcome, but they do not eliminate the risk that arises from not possessing specific knowledge.

Therefore “customers’ expectations”, which are fundamental in fine-tuning institutionalized creativity and responding to them creatively, raise both extrinsic and intrinsic motivations of stakeholders.

Extrinsic motivation to learn may include the opportunity for a promotion, entry to a new career, more money, or simply a need to keep up with change (Rogers, 1989). While, intrinsic motivation varies across persons. Yet, irrespective of the motivation type, students respond positively to teaching that actively engages them in a learning process, gives opportunities for choosing and working at their own pace, is directed towards relevant or practical skills and knowledge, and makes use of their experience (Rogers, 1989).

Therefore, both the creative *process and the outcomes* are key integrators in reaching student’s expectations, motivating them through creativity.

Many researchers focus on making their findings applicable to the entire education system paying little attention to issues specific to the business education sector (Valanides, 1997). Accordingly, we start from defining creativity-related concepts. Then, the “how to do: part offers several realistic insights on how to connect communities into the *game of creativity* (Osho,1999), on the methods required in striving for improvement and in developing responsibility, on balancing creativity with core essentials, promoting excellence and sustainable quality, networking between students, faculty, management and community, improving learning environment, developing staff, teaching, learning competencies and programme curricula under an integrated service vision and anticipating educational future trends in networking and building creative climates and partnerships (Yorke and Knight, 2006).

The paper seeks to provide some answers/“solutions”, in a synthetic manner, focusing on a number of dimensions of creativity: (a) where to play the game of creativity; (b) how to deliver creativity to business students, meaning by what structures and methods (Osborn, 1971); and (c) how to win in implementing this game (Porter, 1985). Our paper offers a theoretical framework for developing a strategic plan for embracing a long-term enhancement of the business world, by locking the element of “creativity” as a key success factor in business and business schools. The framework tackles five main components of a so called “balance scorecard” (Kaplan and Norton, 1992): among which the business and cultural environment (Trowler and Bamber, 2005), various aspect of the involved stakeholders and the policymakers.

We present several links between the application of creativity at organizational level (management and faculty), business schools interactions with the civic and the business community (including the media and the government) and especially their message towards



the students. All these aspects are explored considering the element of creativity as prime importance in transforming the power of customers (students and the society) into a strength that brings up more ethical, more problem-solving prone, more socially-responsible

### **The Research Context: Creativity, its assumptions and definitions**

The main motivations for cultivating creativity are knowledge generation and adaptation to change. The applied forms of creativity is seen as *innovation* (in business) radical or incremental, or *entrepreneurship* for small and medium sized enterprises that involves innovation far beyond what a small business might exhibit, or *intrapreneurship* for applying entrepreneurial skills such as innovation, persistence, and risk taking while working as an employee of a large company. Generally speaking, in Schumpeter's view, an entrepreneur is a person who is willing and able to convert a new idea or invention into a successful innovation. However, we are looking at more than that, we aim to see creativity as apart of a way of life, a struggle for improving personal development, societal and cultural needs, self realization.

*Creativity* is defined in this paper as second generation or 'small c' creativity. Small c creativity goes beyond the traditional critical thinking and problem solving ideas that overwhelmed past instructional theories. It identifies *creative learning* as a process of collaborative and purposeful activity (McWilliam Dawson, 2008). It stresses the importance of creative networks, communications, teamwork, and self-determination that provokes innovation curiosity, initiative, imaginativeness, inventiveness and talent amongst the students (Sternberg, 2007).

The assumptions are more important than the actual forms of creativity in the business context, as well as for self-realisation. For example the assumption of continuous adaptation to change presumes that this is performed in a creative way, however, failure to adapt may not mean lack of applied creativity within the context, but more other mismatches in various areas such as sociology or psychology. Thus, there is a need to tackle adaptation to change stereotypes.

Another assumption is the one of "*knowledge*" vs. "*information*", often used as substitutes for solving problems. For the purpose of this paper, knowledge should be understood as information that is significant to individuals' activities. Emphasizing this difference, it becomes obvious that both information and resultant knowledge share common characteristics. First, it is limited, insomuch as it is too multifaceted to be known to anyone in its entirety. Second, it is generally dispersed among individuals in terms of both space and time. Third, it is sometimes tacit, that is to say that it is understood, but not explicable, or yet again, applicable, but not teachable. Fourth, it is sometimes novel: outside the boundaries of what is known prior to its emergence. The problem with handling knowledge and information comes when error occurs.

“Error” comes from a failure to spot pertinent information relative to a desired outcome. Error exists as either a process error, by using information and knowledge incorrectly within a frame, or a systematic error, meaning failure to include relevant information within the frame. “Risk” is the acknowledgement of the probability of error with respect to any planned outcome (Knight, 1931), but at the same time it is an element of substantial stance in entrepreneurship, as mentioned earlier.

When creativity occurs within an institutional framework, it may be a source of process error, yet error is a source of learning. However, creativity outside an institutional frame is a source of systematic error for the institution (Grether, 2009).

Eventually, from assumptions point of view, *creativity* can be described as the ability to overcome the characteristics of information and knowledge in such ways as to assure new and emergent human needs, or existing needs in innovative ways altogether.

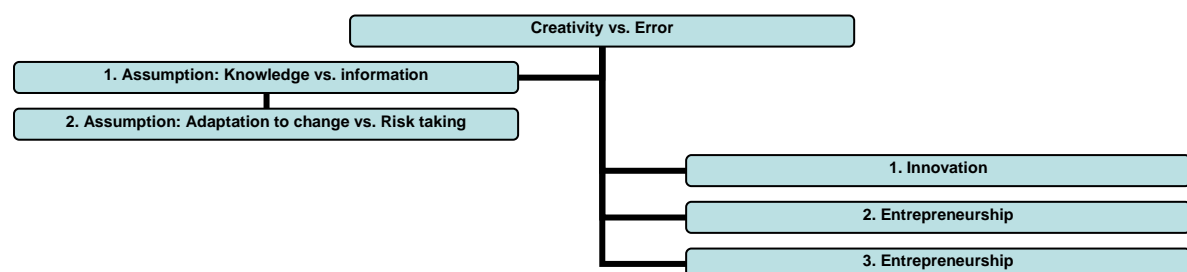


Fig. 1. Creativity assumptions and definitions employed  
(Source: Authors' research)

The current paper makes an attempt to generate innovative knowledge, that is, the direct result of empirical research findings that can apply in practice across disciplines in times of economic duress. This means that we can cause creativity in an interdisciplinary way. Why is that? Simply because in business there are so many interconnections with technology, science, social sciences and cultures that by neglecting their impact one can lose everything. Also, in terms of financial crisis, not everything is lost. Opportunities may develop and they can compensate in time for the economic and financial loss created.

## The Research Framework of the Study

First, we need to re-think how business education is organized in the field of teaching and instruction. If government is serious with its aspirations of promoting the country's as an international and regional educational hub, then is paramount that we should strive to generate pioneering research that will enhance and improve the current unchallenged ways of teaching. Despite a high attendance level for school leavers to higher education, few attempts have been made to examine how these students learn or the quality of the learning experience they receive and even fewer have attempted to see the results of business schools graduates.

Second, the consequences of the present economic crisis should serve as a waking up call for the challenges that lay ahead. Higher education and business schools particularly have the responsibility to prepare students to cope with these challenges. It follows therefore that if we are to train our students to be able to adapt, to work in jobs that may not even exist at present and face unpredictable changes, we have to rethink of how we can teach and generate that knowledge that is relevant within various contexts.

Innovation and creativity has also recently been considered as fundamental pillars for sustainable economic and societal growth (EUROPA, 2009).

In the theoretical framework we put a case forward: that creativity *can be* fostered and learned and Universities *can* play an influential part, even, or especially in times of economic duress. At the heart of our approach is the understanding that employability, creativity and effective learning are closely linked and relate closely with the qualities rated highly by employers (Yorke & Knight, 2006). This paper makes a serious attempt of introducing new knowledge that is innovative and original in assisting teaching at higher education, as well as supporting needed collaboration among the key education stakeholders.

### The Research Framework Analysis:

Our theoretical framework that follows next suggests creativity measurements and boosters for five major evaluators and receptors (Impact Groups), centered on perceived industry's needs, by responding to the following three questions:

1. Where to play the game of creativity?
2. How to deliver creativity?
3. How to win in implementing this game?

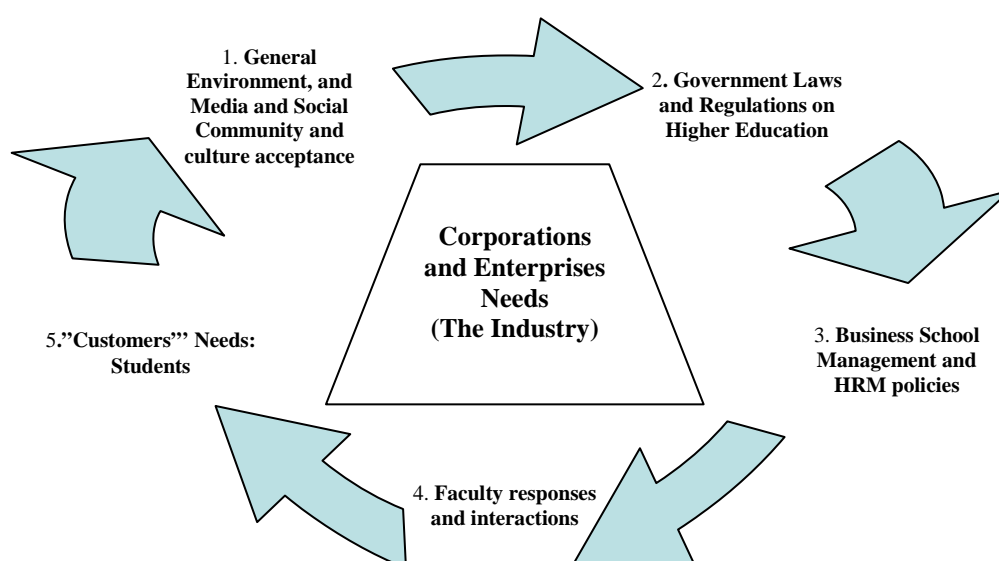


Fig.2 . The Research Framework  
(Source: Authors' analysis)

**The Research Framework Assumptions and Limitations:**

When we talk about “customer needs” and stakeholders in education, there is a lack of consensus in viewing the student as a customer (see Eagle and Brennan, 2007 vs. Svensson and Wook, 2007). Trying to advance our theoretical framework, we utilize concepts from relational theories, acknowledging that higher education is largely a private good and this essentially “makes the student the customer in the higher education process” (Eagle and Brennan, 2007, p.48).

Also, in completely closing the circle of our research, industry needs should be closely evaluated and acceptance to change and creativity further tested. Besides the fact that creativity takes time, work and costs for transforming it into innovation, corporations find it difficult to embrace it, due to its informality and uncertainty, while small enterprises rely on its uniqueness only when it fully belongs to them. It is rather complicated to implement creativity directly at corporate level without its entrepreneurial or innovative spin-offs. This is the reason why, our paper does not suggest ways for embracing it at this level. We are trying to create a creative culture at the closest level to the individual: the educational level. This is done on purpose so that this achievement may be propagated in all other areas and industries at a later stage.

However, the industry in itself represents one of the most important producers and receptors of creative work, people and a creative environment in itself. Indeed more and more business people and economists are now seeing creativity as a form of capital, other call it talent, almost considering it as an engine of economic growth. It is now acknowledged that the company's most important asset is not raw materials, transportation systems, or political influence, it is the ‘creative capital’ (Florida, 2005). In fact there is now a broad consensus among employers about the qualities they are seeking in graduates, with ‘imagination/creativity’ being top of the list (York & Knight 2006).

Also, in a policy report in the UK, it was stated that employers are now seeking “multi-competent graduates” (Yorke and Knight, 2006) emphasizing ‘discovery’ and the synthesizing of ‘big picture’ scenarios (Cunningham 2004). Furthermore, recent research findings also highlighted the importance of creativity that is less focused on everyday problem-solving and more forward looking, focused on new social relationships (Florida and Tinagli, 2004). We should also not neglect other important element of entrepreneurial profile that are related to business success: risk-taking, leadership skills, problem-solving, innovation, game player, components that nowadays can be taught or trained.

### **The 1<sup>st</sup> Impact Group: The General Environment, Media, Social Community and the culture acceptance**

- The general environment relates to the area of promoting a comprehensive pack of tools for a creativity acceptance at all levels. Creativity is sought at European/ International Institutions Level, through high impact distributors of information (i.e. Mass-Media) or through local Communities activities. By being such a dispersed area of application one should answer the next question.
- Creative ways of how to:
  1. Lock in the element of error and responding untraditionally to outcomes errors and more tolerably to process error without disrupting the business or social activities continuity.
  2. Award creative errors and training process errors through collaborative engagement rather than individualistic punishments.
  3. Use transparency and tolerance in creativity evaluation.
  4. Invest in creative capital, creating a culture of acceptance of not only result driven, but process driven creativity.
  5. Educate and feed the demand for creative works and processes by using long-term strategies.
  6. Promote lifelong learning concept to diversified population (in terms of gender, race, religion, social status, wealth). This is done in order to allow for complex interactions and create an environment for creativity.
- As this question has a vast area of applicability, responding to short term vs. long term implementation strategies is the recommended approach. Commitment and trust are though the main ingredients of successful implementation at this level, since the technicalities are too much detailed oriented. However a top down approach is useful since this requirement is also financially driven. Meaning, EU Institutions and have to address social cohesion, competitiveness and performance differently, when aiming at having a European Knowledge Society based on creativity, a culture of European inclusion. This is driven by having responsive Universities to societal needs in such a diverse environment.

### **The 2<sup>nd</sup> Impact Group: Government Laws and Regulations on Higher Education**

- Governments laws and regulations in Higher education are the ones that have to be largely reformed in accepting differences, shifting from the “easiness of standardization” to the concept of freedom and autonomy in education, as long as the latest is governed by high ethical standards, corporate social responsibility and quality of education.

- The Government is the one responsible for offering the chance for lifelong learning in the education institution.
  1. This is supported by enforcing regulations and financially supporting initiatives without discrimination at both private and public education level and even more likely by the industry. In the view of the raising educational costs trend, the government has to be able to offer grants, provide social loans and special scholarships, identify possible budget limitations and try to reap other potential sources of funding.
  2. Assist low income students through governmental campus-based aid funds and award them on merit, not only to allocate them to elite Universities and colleges. Does the government plan to address this discrepancy in the future?
  3. Granting considerable flexibility in the types of programs that can be funded, and allowing to set aside a portion of their funding to continue universities outreach.
- Involvement of academia and business school management in the political life and in the parliament by political lobbying and by using strong negotiation skills. Yet, more helpful is the actual creation and adoption of creativity as such at all these levels.

#### **The 3<sup>rd</sup> Impact Group: Business School Management and HRM policies**

- The establishment of an Academically Creative Environment focused on high research and education standards. Universities rank first in the areas of institutional able to develop lifelong learning, since they offer research based higher education, yet in the area of business, corporations R&D have become recently a competitor as well as a partner of universities in obtaining governmental funding. For Obama's budget for 2010 gives more funding to corporate R&D rather than Universities, due to the "efficiency" in managing properly the funds in delivering innovations. So the game may be played inside as well as outside Business Schools, within partnerships with enterprises.
- Business Schools have to rethink their strategies on image, advertising, students and faculty loyalty programmes, creative ways that trigger the domino effect towards all other management activities related to education.
  1. One way would be that the Management of Business Schools could take the advantage of benefiting from having already available a large pool of talent in the management area. These are the actual faculty members acting in this field, with previous diverse experience in the practice and academic work. Using them would be an elevator in achieving by far better results.
  2. At the same time training management faculty members in creative work would make the process of management very competitive. Thus, HR has its role in evaluating and projecting specific training for creativity results and process driven courses. Developing the intrapreneurial spirit within the organization is

also highly required, under the “reform” spirit. The HRM has to put in practice policies and personnel planning and strategies that are not only professional, but also flexible enough to give room for new “motivators”.

3. Another way would be to use the role of HRM in supporting the concept of lifelong learning for both faculty and students as well as widening the access to it, by allowing diversity in.
  4. Last but not least, the management of the school has the responsibility of meeting students’ demands with the industry ones. They have to offer also innovative financial incentives, bonus courses, adult learning programmes, combinations of programmes and curricula, allow for child-student-adult-industry interaction and foster it.
  5. Utilize alumni help and their creative thinking, by advertising the University’s efforts in promoting creativity in business and involving them in specific activities.
- How to win in implementing this game at institutional level? The approach here can be both top down and bottom up, in the sense that already existing managers and deans of Business Schools can initiate such initiatives and offer incentives to the faculty members that think and act in this way. Again, here the main important role is a collaborative and responsive communication and cooperation among faculty and Business School Management. Investing in trust and commitment becomes another main key for success and fair play in its implementation, as well as allowing flexibility and professionals from industry to take the lead in running creativity related projects, activities, trainings or courses. Business Schools have to join actions with enterprises, lure them into the creative game of competitiveness and idea generation for business success and material profit. In general, never be afraid of rewarding creative work.

#### **The 4<sup>th</sup> Impact Group: Faculty Staff responses and interactions**

- It is known the need for faculty staff to respond to the entertainment need of “customer” (Eagle and Brennan, 2007) nowadays more than ever. Today technology became not only an ally, but also a tough competitor. People are mistaken information with knowledge and solving problems skills, all of them being accessible to anyone on Internet or TV. The promotional role is restricted or deliverable via TV, Internet or chat rooms. Then, the attention time-span of nowadays students has been limited to 11 consecutive minutes (Morphitou and Luca, 2009). Thus teaching becomes more challenging in the way of what to deliver and how during this short time? Therefore it is up to the instructor to become creative at least from this point of view.
- The intention is not to call for more ‘progressive’ or ‘student-centred’ education, but for a radical re-entrenchment in pedagogical work, by challenging the taken-for granted

'traditional' and 'progressive' approaches that are in evidence in the daily work of academics and faculty (McWilliam and Dawson 2008). At the same, the aim is to initiate the formation of a culture that is creative and forward looking and that can start the process of change in the field of teaching in higher education.

1. One way to attain creative work by the faculty is to keep up with technology and make use of it.
  2. Then, try to be creative yourself in delivering courses and in training students to think creatively.
  3. Try to foresee the changing need for corporate strategies and collaborate with the industry for this scope.
  4. Get exposed to emerging markets and collaborate with foreign teachers, also at interdisciplinary level, as well as go abroad for such networking. This would be a fruitful source of new ways, ideas and skills to be acquired and it will offer students ways to know how to fill the gaps in knowledge jumps, overlapping areas as well as totally different ways to approach knowledge and issues.
  5. Then build up research clusters, especially interdisciplinary research, and develop trends through innovations and creative works, but within the norms of corporate social responsibility.
  6. Try to adapt continuously, utilize collaborative active teaching, group work and individual challenging of the group and vice versa, interactive chat-rooms, virtual learning. Johnson and Johnson (1994) identify five elements that must be present for effective cooperative learning. The elements include positive interdependence, individual accountability, group processing, interpersonal and group skills, and face to face interaction. These elements contribute to successful adult learning as described by Knowles (1984). The group investigation, prevention program and other cooperative learning projects described exemplify this approach to learning.
  7. Active learning strategies, which are part of cooperative learning processes, have been shown to increase student motivation, especially for graduate students (Bonwell & Eison, 1995).
  8. Try to become intrapreneurial and take benchmarks as advise and not always as norms.
- Since teaching has become a constable changing process, ad so has learning, try to train yourself for creative thinking in day to day and with: everything you do, selecting interactions, processing information, developing skills, processes, ways of thinking, perceptions etc.



1. It may see difficult at the beginning to do such training, yet, as any practice, in time it does show results. Several countries in the EU including Sweden, Australia and the UK have gone as far as considering compulsory teacher training for lecturers. Some, e.g. Norway, are currently implementing such a policy. We are not suggesting a similar policy but the acknowledgement that, if you 'train higher education teachers to teach, they will do a better job than untrained ones' (Trowler and Bamber, 2005, p 80). So training in creativity could be an answer to its implementation.
2. Accept the idea that Internet and TV have become nowadays mass communication tools and use them wisely, not only in distance learning but in daily activities.
3. Constantly think about change and how to approach it.
4. Understand that indirectly creativity applied in business is the agent of X-efficiency.
5. Provide recognition of merits for creative works and retain them.

#### **The 5<sup>th</sup> Impact Group: The Students' Needs**

- Main issues of concern in responding to students needs for creativity are: the identification of drop-out characteristics, retention methods, motivation factors as well as the key components of successful academic programmes (Tym et al. 2004)). Yet, since our paper is searching for financial crisis impact on students' needs and creativity, we have narrowed down to the common denominator of these two apparently non-overlapping concepts, which we are presenting below.

Since in downturns, the "customer" is under pressure, it demands more, it has stronger bargaining power, then it becomes essential to produce a student analysis that has to be more tailored and more customized. We have to respond diversely to various typologies of "customers" or generations of students, as well as more put in more effort in identifying the current impact of this recent financial crisis.

According to The Economist (2009), integration of markets and financial crisis has triggered more immigration among all social categories of people, which is the only consistent characteristic worldwide, including the E.U. higher education market. At the same time, the existing education level per student category is very different. Today's society has to be ready to *accept these differences* and to use them constructively. Students can be any person willing to learn and study, which can be placed anywhere on the Globe for either studying or work and even for both. The issue becomes then how the package of knowledge, skills and employability level can reach this "targeted customer"?

Especially in times of financial crisis or post crisis, most people incur not only higher costs, but also other "side effects". We call these effects the possible psychological, social, family and relational problems that are indirectly of other nature rather than an economic one.

Hence, it proves necessary for educational institutions to spur their attention on these issues as well.

The reason is not only related to reaping short term individual or group of students' attention, behaviour, capacity of study, but also to assure a learning prone environment on a longer term, for sustaining long term employability of such students. Since unemployment is expected to rise in 2010, but it has a tendency of decrease on a long run in Europe, employability may seem to be another strong driver in education (the Economist, 2009).

Therefore the game has to be played for international students and at virtual world of unknown "student face". Moreover, the future of higher education will be perceived as institutions' capacity to respond to diversity of the citizens 'needs no matter if they are entrepreneurs, students, teachers or governmental staff. All this asks for more flexibility to improve and adapt rather than emphasis on short term profitability of either business or short term academic results.

- In general, the response to combining diversity with creativity, and grasp both, would be to go and live abroad to study and expand the network of peers. Thus, our potential students need to become mobile internationally and interact in a cooperative way so that real exchanges would become possible. Slavin (1989–1990, p. 52) regards it as "one of the most thoroughly researched of all instructional methods." But, at the same time we have to offer equivalent degrees and courses and being able to cross various degrees and areas of knowledge.
  1. Playing with diversity, both at students' level and in terms of information and knowledge is essential, by offering wide access to all categories of students.
  2. Create or introduce mobility, lifelong learning, adult learning and reformed curriculum programmes are cornerstone.
  3. Develop students capacity to respond to diversity by changing and accepting various grading systems for both individual and cooperative learning. This can be done by building accountability through responsible peer and self-assessment so that all students obtain grades/marks reflecting their input.
  4. Develop cooperative learning, which like collaborative learning, entails small groups working on specific tasks. It seeks to overcome some of the weaknesses of traditional small group approaches by structuring activities carefully. Cooper (1990, p. 1).
  5. Involve students in the teaching and in the reform process of the School through their most talented representatives.
  6. Incorporate a variety of multimedia connection tools, e.g. a list on creative links showing activities of how to develop lateral thinking or showing creativity

techniques e.g. games, videos, photographs or even interviews with top-creativity experts and creative entrepreneurs worldwide.

7. We can see that a lot of work has to be done through training sessions as to develop personal creativity, overcoming personal limitations, personal reflection on own methodologies, encouraging interaction, breaking teaching routines and personal boredom.
  8. Create an innovative Social Innovation Fund to test promising new approaches to major challenges, leverage private and foundation capital, and scale up research-proven programs.
  9. Increase the amount of the Education Awards based not only on quality of academic work, but also based on creative work.
  10. Expand and improve corporations and enterprise engagement with more students and alumni to help meet needs in their communities.
  11. Provide a greater financial reward for strong academic achievement based on creative works.
- The success of this implementation is highly linked to two categories of actions:

**I. A source of "service and activities" aimed at students direct implemental activities:**

1. The developing of effective student service and counseling for career structures and paths.
2. The offering of excellent research rewarded and innovative teaching.
3. Creation of a spirit of entrepreneurship and offer electives in this area for everyone
4. The developing of partnerships with enterprises and students and offer a free hand and liberty in their interaction.
5. Creation of partnerships with enterprises at local, regional, national and international level.
6. Acting as a role model for students, not only as academic environment but also as employer.
7. Recognition for merits of applying creativity to processes and outcomes in learning.
8. Understand the message that the teacher is not the only spring of instruction. Peers working as groups enjoin dimensions of learning that lectures and readings by themselves cannot touch.

## II. A source of “thoughts” and “management tools” aimed at student’s training in creativity.

1. The investment theory of creativity holds that creatively talented people share common traits. Then do we find these talented people and look for these traits or do we find the people who have these characteristics in common and then look for their creativity? (Stenberg, 2007 ).
2. We suggest separating creative thinking, processes and outcomes from critical thinking, by fostering both at the same time and empowering active learning as a constructive process, meaning learning is produced not reproduced. Myers and Jones (1993) found that such learning *“provides opportunities for students to talk and listen, read, write, and reflect as they approach course content through problem-solving exercises, informal small groups, simulations, case studies, role playing, and other activities—of all which require students to apply what they are learning.”* As a result, learning is not passively absorbed nor represents facts simply added systematically to existing knowledge. Students often take new material (including conflicting view- points) and integrate, reinterpret, and construe it until new knowledge is produced.
3. Center learning on rapport building, affective and attitudinal change, for fostering the most positive findings from cooperative learning (Cooper and Mueck, 1990, p.71). This move implies focus on the motivational context and on the interactions with the others. Outcome measures racial/ethnic relations, sex difference relations, self-esteem, and other pro-social outcomes. Thus, the instructor has to become not a deliverer of knowledge, but a facilitator for learning.
4. Provide long-enough group relationship in learning, paying attention though at the need for “group refreshing” and “open architecture” (Kay, 1993) for allowing “distinctive capabilities” to settle in. Established teams should remain together long enough to pass through the “forming,” “storming,” “norming,” performing,” and “adjourning” phases cited in the group dynamics literature (Tuckman, 1965; Tuckman & Jensen, 1977).
5. Getting trained in managing groups and group activities effectively, usually in small sizes in order to eliminate dysfunctional aspects and allow for faster cohesion and interaction.
6. Last but not least, embrace all risks regarding creative failures, error and misapplication of creativity and find ways to get back on track.

## Conclusions and Recommendations:

This paper has put forward the idea that creativity in higher education is far beyond a trendy “fad” situated somewhere between motivation, needs and perceived benefits (in times

of financial crisis). It has means of application, implementation, not only in terms of outcomes, but for its related and unrelated processes and it has become part of the social dynamics triggered even more by the latest financial crisis, since this has modified people's behaviour and standard of living.

Diversification, lifelong learning, cooperative learning, adaptation to change, know-how in using knowledge, learning from error, recognising and addressing individual and group needs and strengths, supporting community in order to fuel safety in risk taking, sharing commitment and trust are only part of the issues that help in implementing creativity in higher education. Also, helping students in producing their own ideas and transform them in tacit knowledge explicitly and elaborating on it has become now, more than ever the main milestone in implementing creativity at all impact group levels.

The literature review presented under the theoretical framework support has also provided room for further research areas for comparison among renowned business schools abroad. Last, but not least, the literature review closes the loop into the creativity and innovation acceptance level within corporations and enterprises. Getting into the depths of techniques and methods of applied creativity in Business Schools will provide also a closer estimation of the acceptance's degree of such "new skills" among employers as well as, ranking their importance among employees' other necessary skills.

Additional suggested research analysis on the topic should include:

1. Obtaining prove that creativity increases effectiveness in business and own life of young graduates (employees or self-employed).
2. Providing a strong analysis of the stimulating and inhibitive factors influencing teaching for creativity.
3. Providing comparison of various creative and innovative teaching methods used among schools/departments and universities, not only at Business Schools levels.
4. Evaluating other innovative appropriate teaching techniques and methods for stimulating creativity in students.
5. Assessing creativity ability in terms of student employability in a deeper form.

The following deliverables are related to the expected above mentioned key aims:

1. Obtaining students, and lecturers' creativity profiles for further identification in the next research process.
2. Obtaining the key inhibitive and stimulating factors in applied creativity to business/innovation for taking corrective measures and methods in Universities.
3. Assess Universities creative quality level and potential for improvement.

4. Design and use results as a benchmark with other international results in relation to creativity teaching.
5. Provide the necessary research methods in gathering the data for further preparation including standardised creativity tests for lecturers.

The expected added value and benefit of the paper shows *first* that the development of our understanding in relation to the advantages offered in enhancing the creativity skills of University students, both at the short-term and the long-term have to change. In the short-term students will become more equipped with necessary skills that are considered important by employers and in the long-term the skills developed will help in providing the necessary tools in striving to acquire new knowledge that will help them in staying competitive and innovative – hence enhancing students life long learning skills. Thus, in light of this argument a significant benefit is to promote the importance of creativity as a human value in its own right thus contributing to the social benefit and individual well-being of students (EUA, 2007).

Second, as the issue of creativity has relatively been dormant in the education arena, the research results may provide the opportunity to shape opinions and attitudes from academics, policy makers, educators and University students alike. In view of this, what this research framework aspires to achieve is to lay out the base for developing new tools that will allow academics, University directors, students themselves to engage in the continuous enhancement of the methods of teaching and instruction in Business Schools. At the same time, this paper may provide a good opportunity to promote the importance of training and self-training for Business Schools instructors, especially in times of economic duress.

Eventually, the mission in wanting to be creative is to really comprehend the problem, knowing all the basic ways to approach it. If you don't know what's inside the box, then you really aren't ready to think outside it.

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## WHERE TO? - THE EUROPEAN UNEMPLOYMENT POST CRISIS

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### Abstract

When the scales try to balance between 6.5% and 25% unemployment rates in the European Union, performance indicators seem to become difficult to interpret and forecast, let alone the unemployment trend itself. In other comparative terms with the post financial crisis that hit the World in 2007-2010, Europe's performance looks unfavorable compared to the one of the U.S., One of the reason we present here resides to the E.U.'s four-folded modular pattern in social and political policies compared to a relatively unitary one across the Ocean.

The study uses literature review, secondary and tertiary published data to analyse the construct of the underlined concept from three perspectives: the New Classical Macroeconomics theory related to unemployment, a new approach of relationship with exchange rates and hence a financial perspective and from legal aspects of a social policy as drawn by the latest Lisbon Treaty.

Despite strong evidence support of similar reactions with the post crisis situation of 1973, the answer to an certain degree of inability to understand the fundamental causes of the problem, at economic, social or political represents just a failure to find the advanced applied social policies that may solve it. This has challenge the author to present several recommendations in this respect and readjust the optimistic E.U. unemployment rate for 2010 from an average of 11% to 15%.

This paper offers three previously not correlated angles to look at the unemployment dynamics after the adoption of the E.U. Lisbon Treaty and, at the same time after the most recently experienced world financial crisis.

**Keywords:** unemployment, migration, EU labour market, market rigidities, financial crisis

### Introduction

The facts are that the OECD, a think tank of rich countries, expects to attain a post 1945-high of 10% unemployment or some 57million people in late 2010.<sup>20</sup>

In the E.U, as in the world, states are pursuing divergent routes in their way out of the 2007-2009 extended financial crisis. Except for solutions with strong political, economic and social contents, present integration theories in Europe spin around three main ideas:

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<sup>20</sup> *The World in 2010. Beyond the economic crisis. The Economist. 2009.*

federalism, neofunctionalism and liberal inter-governmentalism, with the later acquiring the leading position<sup>21</sup>. Strictly related to the labour market, some solutions rely on general politics, others on trade unions, while others on the flexibility of the wage contract, facts which lead to a centre-periphery type positioning among countries. Since the Maastricht treaty did not manage to shift towards the 'flexibility' solution entirely, the Lisbon treaty now in force, with article 28 states that workers may "take collective action to defend their interests, including strike action", it immediately qualifies this "fundamental right" by explaining that "the limits for the exercise of collective action, including strike action, come under national laws and practices".

Under this law context and the need to tackle new involuntary unemployment<sup>22</sup> trends as a result of the latest financial crisis, this paper addresses the area of E.U. unemployment in the main regions of E.U. trying to identify differences and common issues for the purpose of forecasting, utilizing the New Classical Macroeconomics theory, modified so that it comprises agents' engagement in information acquisition and presenting unexploited gains from trade. The analysed data are mainly from secondary and tertiary information as input sources.

The novelty of the study is that it keeps away from analyses set out by previous financial crises except for the first oil price crisis in the 1974, where the author has identified specific common parts related to the topic of the study.

It looks into the specific scenario settings of the latest economic recession in an integrative way at macroeconomic level. For such purpose, the study redefines the unemployment forecasting procedure focusing on four main E.U. models (the continental, the Nordic, the Anglo-Saxon and the South-Eastern European model), rather than by each country characteristics. The reason is dictated by the minimal error input of the most populated countries in E.U., building up to over 90% of total E.U. population and employed population.

Finally the conclusions relate to the impact of "imported" unemployment on social dumping if any and recommendations regarding possible ways to reduce chronic unemployment and avoid future social dumping effects not through law implementation but rather through practical applications of social work, strengthening of EU social policy that may assist the creation of a high skill and high productivity growth convergence.

### **The European labour market and the premises for forecasting post financial crisis unemployment trends**

In order to forecast unemployment, it is recommended to see what kind of unemployment we deal with, specify the terminology employed within this paper, besides the theories used,

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<sup>21</sup> Richard Baldwin and Charles Wyplosz. *The Economics of European Union Integration*. 3<sup>rd</sup> Ed. Mc Graw Hill. 2009.

<sup>22</sup> Assar Lindbeck and Dennis J. Snower. *The Insider-Outsider Theory of Employment and Unemployment*. The MIT Press Cambridge, Massachusetts, London, England 1988. pp.47.

as well as review some main causes of the concept applied for the financial crisis period and immediately thereafter.

### Terminology

In Keynesian economics, Duffy (2009) declares that involuntary unemployment is represented by the gap between the number of people working when the labor market is in equilibrium and the total number of people available to work. Unemployment is but one symptom of a malfunctioning labour market (Baldwin & Wyplosz 2004, p.429).

The discussion in this paper regards involuntary unemployment type 1, 2 and 3, as mentioned by Lindbeck and Snower (1988).

“U1: At prevailing current wages and expected future wages (normalized for productivity differences), the unemployed workers would be better off being employed than remaining unemployed, but they are unable to find jobs.

U2: At prevailing current wages and expected future wages (normalized for productivity differences), some workers are unsuccessful in finding jobs because they face a more limited choice set between work and remuneration than incumbent employees face.

U3: Workers unsuccessfully seek work at real wages that fall short of their potential contribution to society (given the appropriate, feasible intervention)”<sup>23</sup>.

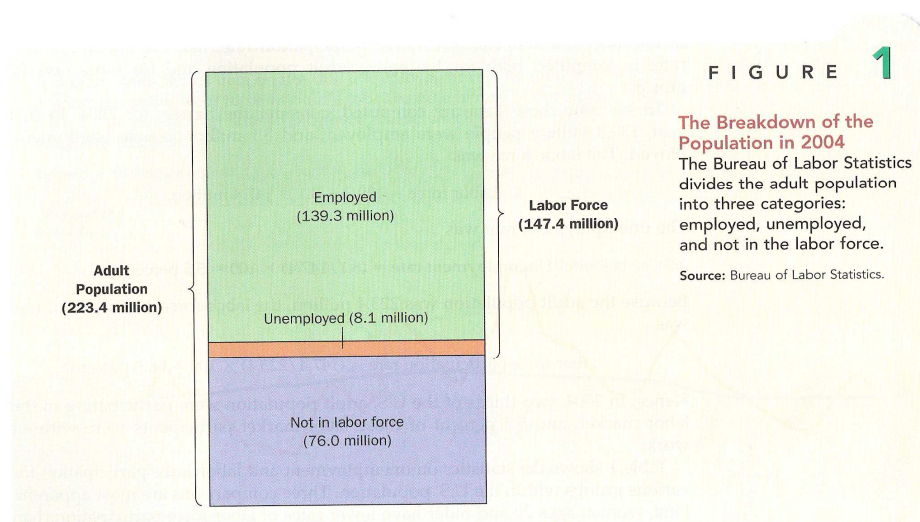


Fig.1. The U.S. example of breakdown of population in 2004 as per the Bureau of Labour Statistics<sup>24</sup>.

<sup>23</sup> Assar Lindbeck and Dennis J. Snower. *The Insider-Outsider Theory of Employment and Unemployment*. The MIT Press Cambridge, Massachusetts, London, England 1988. pp.47.

<sup>24</sup> Gregory N. Mankin. *Principles of macroeconomics*. Thomson South-Western, 2007.

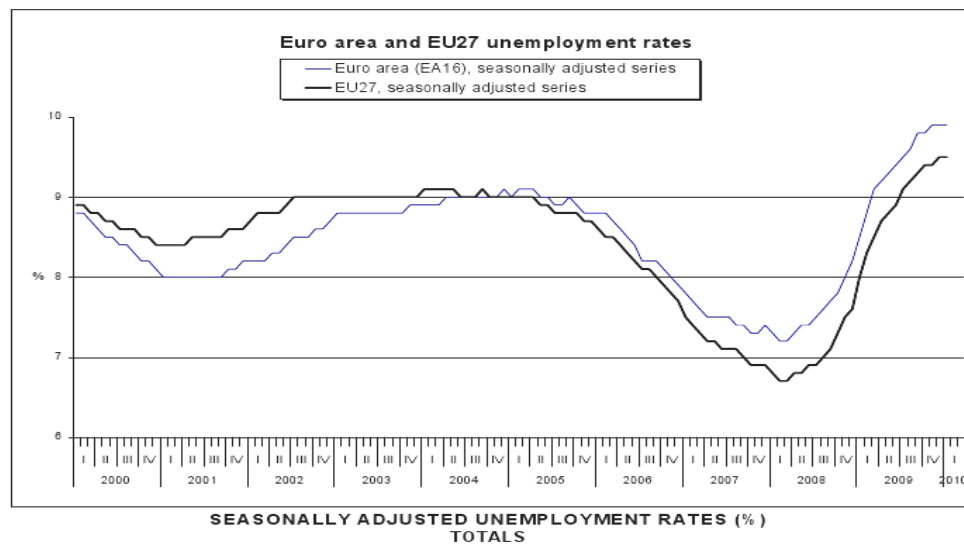


Fig. 2. The EUROSTAT statistics for EUO area and EU 2725 unemployment rates<sup>26</sup>.

Grant, Vidler with Ellams (2003, p. 92)<sup>27</sup> help us define the term 'unemployment', which indicates that labor markets are not clearing. Some of those willing and able to work cannot obtain a job. The existence of unemployment signifies that a nation shall not be producing on its production possibility curve and so will not be achieving productive efficiency. The extent to which unemployment causes labour market failure is obviously influenced by the number of people who are out of work. Moreover, it is influenced by how long people are out of work. The longer someone is unemployed, the more they get out of touch with the skills needed and the greater the risk that they may quit hoping in finding a job!

### Unemployment measurement

Mankiw (2007) writes that it is the job of the Bureau of Labor Statistics (BLS), which is part of the Department of Labor to carry this task. The BLS produces data on unemployment but also on other aspects concerning the labor market once per month. For instance, types of employment, length of the average workweek along with the duration of unemployment. The data under discussion are derived from a regular survey of about 60,000 households – named, the Current Population Survey. Then, the BLS -based on the answers to survey questions- places each adult (aged 16+) in each surveyed household into 1 of the 3 following categories:

- **Employed:** This category includes those who worked as paid employees, worked in their own business, or worked as unpaid workers in a family member's business. It also

<sup>25</sup> The euro area (EA16) consists of Belgium, Germany, Ireland, Greece, Spain, France, Italy, Cyprus, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland. The EU27 includes all countries in the European Union.

<sup>26</sup> The Eurostat News Release euroindicators. 29/ 2010. [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-01032010-AP/EN/3-01032010-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-01032010-AP/EN/3-01032010-AP-EN.PDF). ( accessed 15 March 2010)

<sup>27</sup> Susan Grant, Chris Vidler with Andrew Ellams (2003, pp. 92-4): *ECONOMICS A2 for Edexcel*. Great Britain: Oxford. Heinemann Educational Publishers.

includes those who were not working but who had jobs from which they were temporarily absent due to e.g. vacation, illness, or bad weather.

- Unemployed: This category includes those who were not employed, were available for work, and had tried to find employment during the previous 4 weeks. In addition, it includes those waiting to be recalled to a job from which they had been laid off.
- Not in the labor force: This category includes those who fit neither of the first 2 categories, e.g. full-time students, homemakers, or retirees.

Unemployment rate = (No. of unemployed/Labor force) x 100

### Historical background

"All peoples throughout all of human history have faced the uncertainties brought on by unemployment, illness, disability, death and old age [and] in the realm of economics, these inevitable facets of life are said to be threats to one's economic security"<sup>28</sup>. Grant and Vidler (2000, p. 22) hold that unemployment did not exist in communist times. All those of working age were given a job. State-owned companies produced not according to demand but in response to orders from the Ministry of Economics. Many firms employed way too many workers by western standards<sup>29</sup>.

### Other employed terminology

- Labor force: the total number of workers, including both the employed and the unemployed (Mankiw 2007, p.875).
- Natural rate of unemployment: the normal rate of unemployment around which unemployment rate fluctuates (Mankiw 2007, p.616)..
- Unemployment rate: the percentage of the labor force that is unemployed (Mankiw 2007, p.878).
- Labour Migration/mobility: labour relocation from one nation to another in search of better wages or other benefits

### Unemployment and its causes

Unemployment level is the difference between the labour that people would like to supply at the going wage (L1) and the number of workers actually hired (L0); this is marked as u0 in the left panel of the diagram (see Fig.3 below).

At the same time collective/unionist negotiations do not necessarily imply lack of unemployment nor higher or lower unemployment rates, but rather a different discourse on other elements of the job, which is job security and or immigration issues (see right hand side of Fig. 3 below). In the case immigration is viewed not as a substitute, but as a complement,

<sup>28</sup> 'Traditional Sources of Economic Security', <http://www.ssa.gov/>

<sup>29</sup> N.Gregory Mankiw (2007): *PRINCIPLES OF ECONOMICS Fourth Edition*. U.S.A.: Ohio. Thomson Higher Education.

then it raises the demand for native workers and this may result in higher wages, higher employment and an ambiguous impact on unemployment.

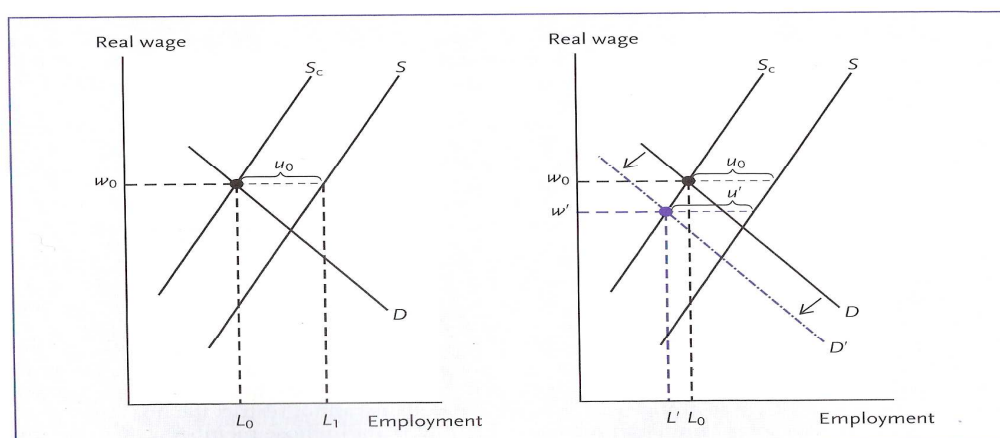


FIGURE 7-13: A SIMPLE MODEL OF UNEMPLOYMENT

Fig. 3. A simple model of Unemployment<sup>30</sup>

Another factor that might lead to a rise in the level of unemployment in an economy is when generous unemployment benefits exist. Some economists in Moynihan & Titley (2000, p.249)<sup>31</sup> textbook, argue that these so called 'unemployment benefits' may reduce some people's willingness to find work. Maunder, Myers, Wall and Miller (2000, p.225-6)<sup>32</sup> offer the example of the UK, where people have had to show that they really are available for work before unemployment benefits are paid. However, others argue that these benefits actually reduce the costs of searching for employment and thus, help the unemployed to look for work (Moynihan & Titley 2000, p.249).

One common belief is that immigrants cause unemployment (Baldwin & Wyplosz 2004, p. 202) while other authors find little or no effect of immigration on the risk of being unemployed, which has to do with the economic notions of "complementarity" and "substitutability" (Baldwin & Wyplosz 2004, pp.200-204). More generally, immigrants who have skills that are complementary to the skill mix in the receiving nation are typically less likely to create losers in the receiving nation.

<sup>30</sup> Richard Baldwin and Charles Wyplosz. *The Economics of European Union Integration*. 3rd Ed. Mc Graw Hill. 2004. p.203.

<sup>31</sup> Dan Moynihan & Brian Titley . 2000. *ECONOMICS ~ A Complete Course ~ Third Edition*. UK: Oxford. OXFORD UNIVERSITY PRESS. pp. 249, 259, 279-287,312

<sup>32</sup> Peter MAUNDER, Danny MYERS, Nancy WALL & Roger LeRoy MILLER: *ECONOMICS EXPLAINED*. UK: London. HarperCollins Publishers Limited. Pp. 225-226.

### Unemployment and macroeconomic indicators clashes or correlations?

Structural market rigidities for the underperformance of European labour markets are to blame most of the time. After the completion of the European Monetary System, it is vital to understand how labour market institutions will interact with other structural changes taking place in the E.U. and abroad, especially in the U.S.

Either obtaining an absolute or a relative efficiency, which everyone generally targets, becomes likely to turn out to be more important within the monetary union context, since increased specialization and more intense competition should lead to increased opportunities for workforce reallocation, increased migration waves and directions. At the same time, free mobility of capital will worsen the economies of those countries and regions which are relatively inefficient. Most of the cross border FDI and international portfolio investments into emerging markets dries up till recovery comes back.

Yet, since labour demand becomes more turbulent, the E.U. may call for measures to protect employment, especially since there is a limited maneuver space for the use of monetary and fiscal policies. Such policies are usually needed to offset asymmetric and economic shocks which, at their turn, lead to radical changes in major macroeconomic indicators, such as the Gross Domestic Product (GDP) and unemployment, as presented in Fig. 4.

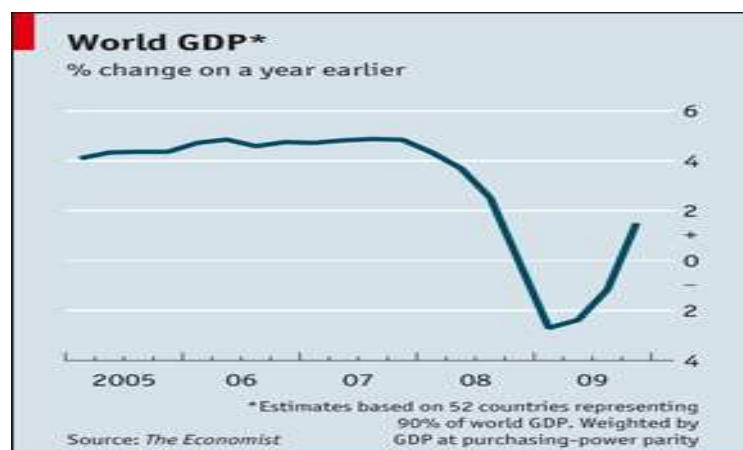


Fig. 4. World GDP forecast for 2010.

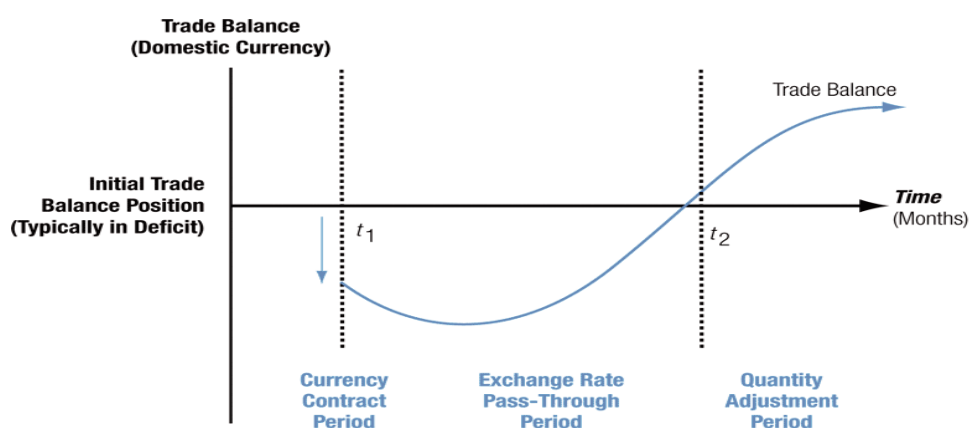
Which other indicators can show the way towards unemployment forecasting?

In other shock analyses<sup>33</sup>, the explanations of the 1980s slump in Europe finds the principal source, or at any rate a major source, in the fiscal and monetary shocks originating in the USA in the first few years of the decade 1980s.

<sup>33</sup> Jean-Paul Fitoussi and Edmund S. Phelps, *The Slump in Europe. Reconstructing Open Economy Theory*. Basil Blackwell. 1988. pp53.

Again, after the 1990s and the IT bubble, the 2007 U.S. lead financial crisis, due to sizable trade and financial deficit as a result of the bailout system applied in the U.S. and in some large E.U. economies for the purpose of backing up the mistakes of banks under the cover of financial innovation, these countries are now compelled to devalue their currency. Devaluing currency means an automatic spur in exports as in the J-curve, as represented in Fig. 5.

However, the spur in exports does not necessarily reflect a more efficient way of producing such goods and services nor does it mean that these are produced mostly by the employed national people and not by immigrants. The economic problem arising when product quality is assessed through the product price have been studied in the context of many markets (e.g. Akerlof, 1970; Arrow, 1963), not just the labour market, taking the forms of adverse selection and moral hazard. Besides, these also converge with the findings of Weiss, 1980 and Malcomson, 1981 in the “productivity differential models”, where one cannot be distinguished the difference between high-productivity and low-productivity workers.



If export products are predominantly priced and invoiced in domestic currency, and imports are predominantly priced and invoiced in foreign currency, a sudden devaluation of the domestic currency can possibly result—initially—in a deterioration of the balance on trade. After exchange rate changes are passed-through to product prices, and markets have time to respond to price changes by altering market demands, the trade balance will improve. The currency contract period may last from three to six months, with pass-through and quantity adjustment following for an additional three to six months.

Fig. 5 The J-curve.<sup>34</sup>

What we can infer from Fig. 5 above is that a period of 6 to 12 months of adjustment of trade balance deficit may be a way of buying time for redressing the foreign exchange course and the entire balance of payments.

However, some devaluation can be self-destructive, it makes imports more expensive, then the solution is that instead of importing the goods one needs to get the production efficiency

<sup>34</sup> David K Eitman, Arthur Stonehill, Michael H. Moffett, *Multinational Business Finance*, 12th Ed. Pearson International Edition. 2010.



in the domestic market by “importing” the 50% costs of production, which in general is the labour cost, in brief, one should apply to the migrant’s work force.

Studies held in the 1980s, also show that the package of policy innovations, by raising real interest rate in Europe and lowering the real value of the European currencies had predominantly contradictory effects upon both employment and output in Europe over the five year period of study 1981-1985. In that case some elements were missing compared to the new settings: the migration factor, the new wages costs, the subsidies in investments and bailouts, and possible liquidity spur and credit supply enhancement.

In this case EU should see increased employment in its consumer-good markets to offset reduced employment in the capital/financial-good market, thus the prices in the consumer-good markets should be over those in the capital-good market. But, a higher consumer-good price level entails a higher indexed or contractual wages, an effect which acts to reduce aggregate output and employment, leading to accelerated retirement of workers rather than re-employment at new firms, on top of further lay offs.

When considering the starting point of the financial crisis, the U.S. financial markets, the study tries to show the real domino effect into the E.U. markets, including the labour one.

Doesn’t anyone know the Brahms-Solow lore that the higher interest rates in the US depress output in Europe? (the rise in interest rates spurs the fixed quantity of European money and to achieve faster velocity and thus push up output and that the sole effects of the reduced investment expenditure are to increase the amount of output that must be exported at a given interest rate. A real depreciation of Euro will drive mark-ups up thus cubing the supply of real balances and reducing output in EU and to reduce mark up in the US thus boosting real balance there until the two interest rates are brought into a line.

The same structural balance of payments deficiencies will occur in E.U, the same devaluation of currency and the same trend to spur exports and then the need for ‘imported’ labor. However, the pure economic issue becomes then the labour efficiency or productivity or its costs. Thus, the trade between a flexible-wage in the U.S. and a rigid-wage Europe in a theoretical landscape is in fact a move from autarchy to free trade that may more or less double European unemployment, especially in certain countries. Why is that?

### **Recent unemployment compared to the post 1973’s one**

Since the first oil shock in Europe, unemployment has been steadily increasing, while the rate of increase unemployment in the US has been three times lower in the 1980-1984 period than in the period following the first oil shock. These trends reflect contrasting evolutions, as unemployment rate has actually decreased in America since 1982 and there is not a single year where it did so in Europe until the bumpy recovery that began in Germany, UK and Italy in 1986. In the period 1974-1980 the annual job creation was higher than the previous period of rapid growth of GDP in 1964 to 1973. In contrast, in the 1981-1984 period,

employment increased by 5.8 million in the US and decreased by 2.6 million<sup>35</sup> in Europe, bearing in mind the two regions have similar size of labour force.

Not so recently, the U.S. wages have risen to the European level, due to their flexible structures. Also, such entry as that of the unskilled "South" to world markets raises European unemployment. Europe's commitment to the high wage and limited hours of work wholly protects the U.S. from further unemployment shocks. Immigration to U.S. raises American income, but shrinks European income dollar for dollar, while European unemployment escalates, as shown in Fig. 6.

The same Fig 6., in 2009 indicates the U.S. hours worked on average per employee dropped by 5.1 hours compared to only 3.1 hours in EU-15. Conversely, the GDP has dropped more in EU than in the U.S, but not yet the employment level. Comparing figures and patterns, we can see very similar reactions of macroeconomic indicators including the unemployment trend within the EU and the U.S. after the recent financial crisis and the post crisis period of the first oil-price crash in 1974.

<b>Different strokes</b>		
GDP and productivity, % change, 2009		
	<b>United States</b>	<b>EU-15</b>
Hours worked	-5.1	-3.1
GDP per hour	2.5	-1.1
GDP	-2.5	-4.2
Employment	-3.6	-1.9
Source: The Conference Board		

Fig. 6. GDP's productivity change in 2009- the U.S. vs. the EU 15.

One reason is the levier effect of the financial crisis that has not fully hit the bottom in the E.U., others base it on the shortening of the working hours per week in EU compared to the U.S., or others take the work force productivity as a whole, while other linked all these to the social dumping effect within the E.U. as a result of the latest integration wave from east to west.

Bearing all these in mind, we come back to the issue of capital and labour mobility. It becomes interesting to see if the recent EU enlargements have stirred the dispute about whether labour migration from the east to the west is causing the unemployment relocation,

<sup>35</sup> Jean-Paul Fitoussi and Edmund S. Phelps, *The Slump in Europe. Reconstructing Open Economy Theory*. Basil Blackwell. 1988. pp33-34.

unemployment traps<sup>36</sup> and social dumping in the EU, with the effect of distressing traditional national systems of labour market regulation.

In general, studies<sup>37</sup> have shown that there is little evidence of greater labour mobility causing new social dumping pressures on a widespread basis. However, it goes on to suggest that the situation may change if the EU adopts neoliberal policies at the same time as promoting greater labour market openness between the Member States, as the Lisbon treaty does.

Regarding social considerations, the job and opportunity to work fairness, the income stability post the 2007-2009 financial crisis and the job security seem to be tackled by Europeans in their quest for building a dynamic knowledge-based economy, capable of sustainable growth with more and better jobs and greater social cohesion.

In concluding this section, it becomes key to understand the impact of GDP change as element of economic competitiveness, the migration issue and more the general response of the social systems (difficult to be quantified) for predicting future EU unemployment trends.

### **The four main E.U. models: the Continental, the Nordic, the Anglo-Saxon and the South-Eastern European and the near term EU unemployment trends**

Most EU countries put a high weight on social concerns relative to economic efficiency, while US and the UK incline to the other way.

In EU, labour market inflexibility and post financial crisis need for redress will incur higher costs in terms of unemployment and reduced growth potential, where unemployment may raise through migration of unemployment-prone workers towards areas with best social protection, while the best prepared and trained/educated will target more flexible labour markets. Thus, the choice is high social protection and heavy tax burdens, needed to compensate for it, alongside with economic effectiveness with low unemployment and moderate taxes and labour policies.

In E.U., we have identified four models, geographic-wise, coming also from a more egalitarian and solidarity type of labour markets, but inflexible towards more flexible ones, but individualistic. These are the following: the Continental, the Nordic, the Anglo-Saxon and the South-Eastern European

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<sup>36</sup> Unemployment trap is created when, due to social insurance systems, the unemployed cannot afford to accept a job once they compare the wages that they would get with the unemployment benefits they receive, usually more rewarding.

<sup>37</sup> Jimmy Donaghey and PauTeague I. The free movement of workers and social Europe: maintaining the European ideal, *Industrial Relations Journal*, 37. Issue 6, Pages 652 – 666, 1 Nov 2006.

### **The Continental Model**

This model borrows from Bertola et al. (2001), and it generalise things rather than playing on differences. We consider in this model countries, such as Austria, Belgium, France and Germany, countries concerned about detailed labour market legislation and all aspects of employment, with fairly high minimum wages, strict restrictions on dismissals, generous unemployment benefits which makes unemployment long-lasting and low employment rates with low hours worked and inflexible, where citizens are protected by highly developed welfare systems. This model faces high unemployment threats upon economic crisis due to their social model. Its representative countries have an unemployment level for end of 2010 ranging from 10% to 10.9 %, close to the average of 11% of the EU, due to government pump-priming in the labour markets.

Depending on the continental model needs of skilled and unskilled people, the rules of the game are played by labour laws modifications. Germany, a very common continental model labour market, as a whole is underemployed. When “guest workers” from Turkey, Italy and Greece, apart from other non-EU citizens, flooded in to ease labour shortages in the 1950s and 60s, Germans thought they would eventually leave. Since 1980s the government has tried to pay them to go. For the past decade though, it accepts that Germany is an “immigration country”. A citizenship law adopted in 2000 mentioned that people not born German could become so was followed in 2005 by an immigration law that inched open the doors for skilled foreigners.

However, for various reasons, immigrants play a disproportionately small role in Germany’s labour force. Nearly 30% of Germany’s Turks, the largest group of immigrants, have no secondary-school diploma, and just 14% qualify to go to university. Some 16% are dependent on welfare, twice the share of native Germans. In 2005, for example, the unemployment rate among Turks was 23%, compared with 10% for native Germans.

While Anglo-Saxons were caught in consumptions, Germans kept saving. Domestic investment has not kept the pace. The result of Germans’ efficiency at exporting, combined with their reluctance to spend and invest, has brought in huge trade surpluses. Most recently, Germany’s excess savings have been directed abroad—often into subprime assets in America and government bonds in such countries as Greece. It would be not sustained to keep on thinking a prudent Germany is responsible for Greece’s high deficits or Spain’s property bubble. But it is likely that, within a single-currency zone, usual surplus countries tend to be matched by usual deficit ones.

### **The Nordic model**

Nordic countries including Sweden, Norway, Finland, Denmark and Netherlands offer even a more extensive welfare system than the continental one, with the exceptions of the

Baltic countries<sup>38</sup> which may soon follow anyway the Lisbon treaty. The Scandinavians are deeply attached to income equality, achieved through wage compensation although not risk or talent rewarding, a heavy and progressive taxation, and by combining a unique degree of solidarity and social cohesion with relative harshness in tackling unemployment. The Scandinavians are however opposing the continental model on the ground of economic and social inefficiency, despite being themselves on the extreme side of large welfare state. Its representative countries have an unemployment level for end of 2010 ranging from 6.2% to 10.7 %, much under the average of 11% of the EU, due to strong social protection and efficiency re-boots in their economies thanks to Norway's oil and gas resources, but not neglecting Sweden's exposure to the Baltic banking markets and Netherlands involvement in banks bailouts..

### **The Anglo-Saxon Model**

In the past decade Britain has come across experimenting new active unemployment policies, yet structurally the U.K. in the post Margaret Thatcher era got closer to the US flexible labour system than the continental one. The relatively recent "welfare to work" program aims at paying people to work rather than servicing unemployment benefits, but together with the Scandinavians, Britain signed the Lisbon treaty, getting now closer to balancing economic efficiency with social cohesion, despite its visible closeness towards the US model. The U.K and the Irish economies are hit by levels of 10 to 12% due mainly to their exposure to the US markets, which means their unemployment rate will go faster down than in the one in the EU on the short term.

### **The South-East European Model**

Most of the EU Mediterranean states (Spain, France, Italy, Portugal and Greece) and the Central-Eastern EU states form apparently a disparate group, with a recent adoption of social welfare systems, with low social protection, ungenerous unemployment benefits. On the other hand, taking the example of Spain, this model has a tradition of strict employment protection. Under the Franco dictatorship, temporary work was illegal in Spain. Nowadays this issue is not valid, while the emphasis starts to be put slowly towards wage equality, relying though on still income sharing within the family, as a tradition.

In Spain, rigid labour market made most employees too costly to fire but condemns a third of workers to unstable, unprotected temporary jobs, under the context of delayed pension and labour reforms.

This is why this model tends to push for more employment rather than wage rigidities, but it becomes very vulnerable to diseconomies or market inefficiency. As far as it concerns the Eastern block, they have discovered capitalism is harsh and their transitory phase to EU

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<sup>38</sup> Unemployment in Latvia at 22.8%, is the highest in the EU. Growth is unlikely to resume until late 2011. (EIU).

integration brings then closer to the continental model, keeping though their traditions and cultural closeness with the South Eastern Europe model.

The South Mediterranean countries are hardly hit by unemployment spurs, as well as other Easter countires such as Poland, Romania, Bulgaria, Greece, Spain and Italy that all have to follow tight fiscal policies and really watch closely macroeconomic indicators, under the close control of the EU and of the IMF.

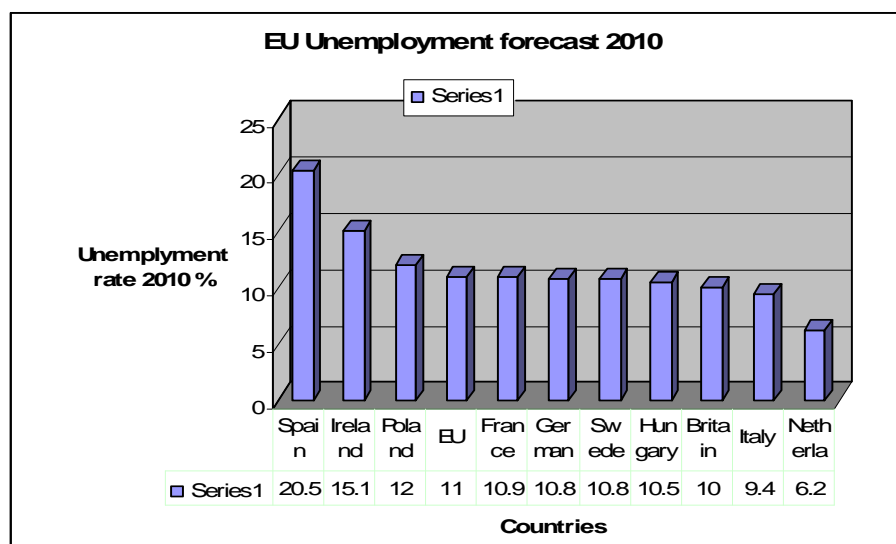


Fig. 6. Source: Economist Intelligence Unit, *The Economist*, 2009

In Greece, a multi-recession hit country, most recently the government wants among other things that high-earners pay more income tax and then wishes to cut back the public-sector payroll. By also raising the retirement age from 58 to 65 to the EU level, Greece early retirement has spurred. The number of female civil servants applying for early retirement has already jumped by 25% in 2010, yet its most productive workers are often women in their 40s and 50s. "It's the most efficient female colleagues who are lining up to leave". Thus, such effects may be unproductive on a short to medium term.

#### The details of the EU unemployment dynamics post the recent economic crisis

The euro area (EA16) seasonally adjusted unemployment rate was 9.8% in October 2009, the same as in September. It was 7.9% in October 2008. The EU27 unemployment rate was 9.3% in October 2009, compared with 9.2% in September. It was 7.3% in October 2008.

Among the Member States, the lowest unemployment rates were recorded in the Netherlands (3.7%) and Austria (4.7%), and the highest rates in Latvia (20.9%) and Spain (9.3%). Compared with 2008, all Member States recorded an increase in their unemployment rate. The smallest increases were observed in Germany (7.1% to 7.5%), Austria (4.0% to 4.7%) and Romania (5.7% to 6.4% between the second quarters of 2008 and 2009). The highest

increases were registered in Latvia (9.1% to 20.9%) and Lithuania (4.8% to 13.8% between the second quarters of 2008 and 2009). Between October 2008 and October 2009, the unemployment rate for males rose from 7.3% to 9.7% in the euro area and from 7.0% to 9.5% in the EU27. The female unemployment rate increased from 8.5% to 10.0% in the euro area and from 7.6% to 9.2% in the EU27.

#### Harmonized Unemployment Rate by Gender- total- 2009m 10

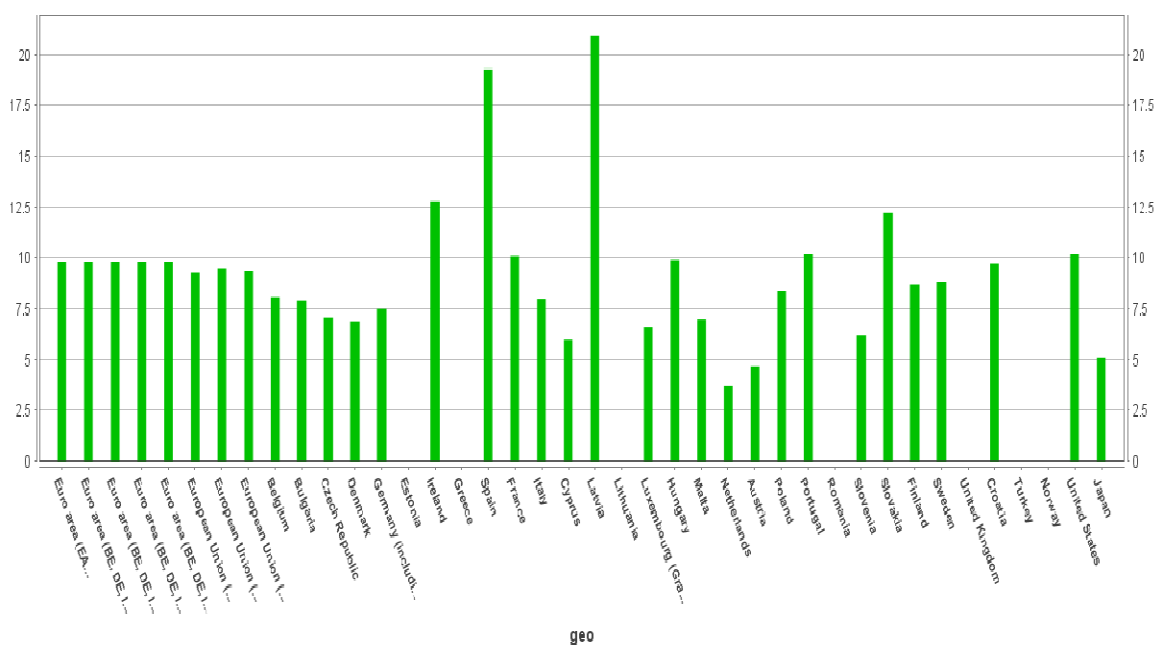


Fig. 7 Harmonized Unemployment Rate by Gender- total- 2009m 10

Unemployment has been rising sharply in the European Union since March 2008 as a result of the economic crisis. The increase was felt in every European Union country, by both males and females, young and old. However, the onset of the increase as well as its severity varies widely between countries. Men are clearly affected more than women, and young people appear to be quite vulnerable too.

Men have clearly been affected more by the current crisis on the labor market in the EU27 than women. Sectors such as construction, the financial sector and the automotive industry have been hit hard, thereby affecting predominantly men. Between the end of 2002 and early 2007, the unemployment gap was stable at around 1.3 percentage points, the female rate being higher. But in the last two years, most markedly since the first quarter of 2008, both rates have converged. In the first quarter of 2009, the male unemployment rate has moved closer, to only 0.3 percentage points below the female rate.

Working women make up a fast-growing percentage of the global workforce, which is now estimated at 46 per cent of the total<sup>39</sup>. In emerging markets, most working women are self-employed, earning low and irregular incomes, whereas most of immigrant women non-E.U. do not work for cultural and religious reasons.

In 14 Member States the female unemployment rate still exceeds the male one, most noticeably in Greece, Italy, Slovakia and the Czech Republic. In contrast, in Latvia, Ireland, Lithuania, Estonia and Romania the unemployment rate for males exceeds the female rate by more than 2 percentage points. Between the first quarters of 2008 and 2009, the male unemployment rate increased more than the female rate in all Member States except Malta, Poland and Romania. However, this situation may or may not be related to these countries increasing GDP growth, to the U.S capital markets, to cultural or migration issues.

Youth unemployment has been increasing in the euro area and EU27 since the first quarter of 2008, in line with total unemployment. But the increase has been at a much higher pace for young people. Youth unemployment increased by 3.9 % between the Q1 of 2008 and the Q1 of 2009 in the euro area reached 18.4 %. In the EU27 the increase was 3.7%, leading to a rate of 18.3 % in the Q1 of 2009. In the same period, the total rate increased by 1.6 % in the euro area and 1.5 % in the EU27, which coincidentally has been in line with inflation drop for the same period.

Estimated at 10.1% in 2009 from 7.2% in 2008 and forecasted at 11% in 2010<sup>40</sup>, the EU unemployment imports not only the over the Ocean effect, but it reflects closely, coincidentally or not, the social system patterns applied to each of the four models above presented and responds to the correlations with macroeconomic indicators. Hence it becomes more realistic to adjust this figure with a margin of error of 3%, to a more realistic unemployment rate of 13% that transfers further the EURO depreciation against the USD and unsustainable GDP growth in the E.U. for 2010, the difficulty in implementing correlated social protection and immigration policies through social reforms, the further strikes and government changes during the year, the impact of handling Europe's international trade strategy.

## Recommendations

This paper is for the reduction of involuntary unemployment through watching macroeconomic indicators (as presented in section 1 above), but also by applying a better policy mix. Such a policy aims at, on one hand the E.U. maintaining its commitment to the free movement of workers and, on the other hand, at strengthening labour standard-setting mechanisms at both the EU and national levels. In this respect promoting several Labour standard-setting mechanisms can be enhanced in three main directions:

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<sup>39</sup> Insead Knowledge. Top 10 articles.(Q1 2010). <http://knowledge.insead.edu/contents/top10.htm> ( accessed 31March 2010).

<sup>40</sup> *The World in 2010. Beyond the economic crisis. The Economist.* 2009. p.46.



1. Skills and competence development for improving job quality and lifelong-learning through:

- Training, education and employment performance either by the government, employer or self-conscious through life-long learning programmes;
- Skills and access to training;
- Participation in work-related training;
- Increasing working time spent on training;
- Skills / job match;
- Training and the information society.
- Member States' policies should consider the operating dynamics of this vicious circle (work quality-productivity-economic growth) and to utilize the positive interactions between quality and productivity.

2. Wage and earnings. Member States should consider setting national employment rate targets in addressing these objectives, action should concentrate on the following priorities:

- Improve adaptability of workers and enterprises;
- Increase investment in human capital through better education and skills;
- Retain and attract more people in employment, increase labor supply and modernize social protection systems.

3. Ensure employment-friendly labor cost developments and wage-setting mechanisms by:

- Reviewing the impact on employment of non-wage labor costs and where appropriate adjust their structure and level, especially to reduce the tax burden on the low-paid staff.
- Encouraging social partners within their own areas of responsibility to set the right framework for wage bargaining in order to reflect productivity and labor market challenges at all relevant levels and to avoid gender pay gaps.

Too many people fail to enter progress or remain in the labor market because of a lack of skills, or due to skills mismatches. To enhance access to employment for men and women of all ages, raise productivity levels, innovation and quality at work, the EU needs higher and more effective investment in human capital and lifelong learning.

Knowledge-based and service-based economies require different skills from traditional industries; skills which also constantly need updating in the face of technological change and innovation. Workers, if they are to remain and progress in work and be prepared for transition and changing labor markets, need to accumulate and renew skills regularly. The productivity of enterprises is dependent on building and maintaining a workforce that can

adapt to change. Governments need to ensure that educational attainment levels are improved and that young people are equipped with the necessary key competences, in line with the European Youth Pact. In order to improve labour market prospects for youth, the EU should aim for an average rate of no more than 10 % early school leavers; and for at least 85 % of 22-year-olds to have completed upper secondary education by 2010. Policies should also aim at increasing the EU average level of participation in lifelong learning of the adult working-age population (25 to 64 age group). All stakeholders should be mobilized to develop and foster a true culture of lifelong learning from the earliest age.

## Conclusions

This paper provides an outlook of the involuntary unemployment links with macroeconomic factors under a 'vicious circle' format, explaining the links within the international trade theory and the neoclassic approach to this concept, both as an indirect effect of the most recent financial crisis imported from the United States and as a stand-alone European structural perspective.

Also, the unemployment post 2007 financial crisis is compared with the one experienced in the period post 1973's economic crisis, emphasizing the common issues and dissociating the differences.

When trying to determine the European unemployment structures, the paper offers four major geographic models for unemployment in the EU, who experience opposing discrepancies. Moreover, the four EU unemployment models are used in obtaining details in building an EU unemployment dynamics analysis immediately post 2007-2009 financial crisis.

Subsequently, the paper presents several recommendations for diminishing unemployment from its most sensitive perceived effect at social and corporate level. The suggestions relate to improving job quality, setting national employment rate targets by manipulation of social protection systems, ensuring employment-friendly labor cost developments and wage-setting mechanisms and last but not least expanding and investing more in the human capital.

Grant, Vidler with Ellams (2003, p.142)<sup>41</sup> give an excess of policies a government may employ to reduce unemployment. Thus we consider also that the choice of measures shall be drawn upon the cause of unemployment, the rate and duration of unemployment and the circumstances of the other key macroeconomic and socially agreed objectives. As far as the short run is concerned, unemployment can be eliminated by measures that raise aggregate demand, but in the long run, supply-side measures are closer to be more effective social policies that look beyond biased causes of it, such as migration, culture or religion.

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<sup>41</sup> Susan Grant, Chris Vidler with Andrew Ellams (2003, pp.142-3): *ECONOMICS AS for Edexcel*. Great Britain: Oxford. Heinemann Educational Publishers.

Future research on the same topic we recommend considering collateral and mutual implication of unemployment in the economy, comparative analyses with other economic crises, not only at EU level, but also at other regional or international levels, as well as under a developed longitudinal study framework.

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## CONSUMER ORIENTATION IN HIGHER EDUCATION: THE CASE OF PRIVATE UNIVERSITIES IN CYPRUS

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### **Abstract**

The purpose of this study is to investigate the Consumer Orientation of Cypriot Higher Education since the Cyprus's higher education system is in transition and the role of the private higher education sector is under review. These internal changes are intended to market Cyprus's educational system more competitively. This study contributes to the limited empirical evidence about Marketing of Higher Education in Cyprus. Data was collected through 20 in-depth interviews directed to 20 undergraduate students attending Marketing Courses and three focus group interviews with university administrator's involved in student recruitment. The results demonstrated that universities are using a "sales" rather than "customer" approach, and that the promotional tools used are ineffective as demonstrated by the student in depth interviews.

Our argument is presented in three stages; an initial exploration of the tertiary education market of Cyprus and the relevant literature available, then an exploratory analysis of students' perception of promotional tools used by universities, and finally an examination of the Marketing Strategies used by the three Private Universities in Cyprus. We will not be making the case for private versus public institutions in this paper but we follow Zumeta assessment that nonprofit higher education "is a valuable to the nation" (1992:363) when referring to the USA.

**Keywords:** Promotion, Advertising, Communication, Higher Education

### **Introduction**

The operationalisation of marketing in Cyprus's private tertiary education system as 'increasing student numbers' is problematic from both an educationalist's and a marketer's perspective. Although the USA has embraced a specific professional stance as 'enrollment management' and the UK has taken a broader marketing orientation that clearly embraces recruitment neither has adopted a crude sales orientation approach which we detect in Cyprus. These different perspectives lead to differences in implementation for both domestic and international recruitment.

Cyprus's private higher education sector—influenced by both of these international traditions – is facing new challenges in terms of domestic demand, the need to increase international student recruitment, pressure of EU harmonization and the realization of the potential growth due to its geo-political location. This paper uses these insights on the

readiness of private higher educational institutions to exploit national and regional markets as Cyprus seeks to become a regional centre of educational excellence. We find the sales orientation is unlikely to build a sustainable future but that it is maintained by short-term institutional goals and inappropriate government policies if growth is their objective.

Our argument is presented in three stages; an initial exploration of the tertiary education market of Cyprus and the relevant literature available, then an exploratory analysis of students' perception of promotional tools used by universities, and finally an examination of the Marketing Strategies used by the three Private Universities in Cyprus. We will not be making the case for private versus public institutions in this paper but we follow Zumeta assessment that nonprofit higher education "is a valuable to the nation" (1992:363) when referring to the USA.

## **Literature Review**

### **The Cyprus Situation**

The demand for higher education has risen considerably over the last 20 years and at present over 60% of all secondary school leavers continue in post-secondary education (Department of Statistics and Research, 2007/08). This figure is based on a 65% increase in student numbers in tertiary education from 2000/01 to 2007/08. This demand has led to the development of an effective private sector which, since the 1970s has had more students than the public sector, mainly in vocational provision (Koyzis, 1989). This has led to special measures introduced in 1987 to accredit private institutions, which has produced the recognition of higher education programs by the government of Cyprus which eventually led to the establishment of three private universities. The number of places offered by the University of Cyprus and the Public Tertiary Education Institutions of Cyprus and the Technological Education Institutes of Greece has increased in line with qualified demand maintaining an access of supply.

The trend in distribution of students in Cypriot institutions compared to overseas has changed with rapid domestic growth (53%) between 2000/01 and 2007/08 with corresponding numbers dropping in foreign universities and a reversal in this trend since 1996/1997; where the drop seems particularly dramatic is in the number going to Greek and American universities there is an increase towards UK and Bulgarian institutions. The main beneficiary of Cypriots studying abroad is Greece and then the UK. The most popular discipline is business administration with engineering, medicine and social studies the next most popular.

The Greek Cypriot desire for higher education seems to be as much driven by intrinsic desires for higher studies as well as an instrumentality of employability (Menon, 1997). This has led to a mismatch of graduate skills with labor needs, resulting in an oversupply of graduates. This in itself raises the central issue of educational planning of the marketing of

alternative routes to employment other than higher education. This demand management of the Cypriot educational market is too complex to be considered here.

The current structure of higher education is summarized in the Government booklet, 'Higher Education in Cyprus'. The central role is given to the Department of Higher and Tertiary Education within the Ministry of Education and Culture. This Department covers registration, supervision and accreditation of all the private institutions and certain aspects of the University of Cyprus and in association with appropriate other ministries the seven public institutions of non-university higher education. As Koyzis (1997) indicates, European accession and the inevitable harmonization within the European *aquis communautaire* will mean that the higher education sector will have to examine these realities, which may result in repositioning the roles of the public and the private providers. Already two new public universities, a technical and an open university, have been approved by the government and started operations together with three private ones.

### **Marketing Education**

As suggested by P. Gibbs (2002) in his article "From the invisible hand to the invisible handshake, educational institutions are rapidly identifying themselves, conceptually and in their discourse, as agents of national and international markets. This is indicative of a general shift from public social policy for higher education as a 'public good' to one where it is viewed as an extension of self-interested economic policy. This market narrative is the context for marketing where consumptive models hold sway.

Gibbs P. (2002) stressed that most educational institutions now recognize that they do need to 'market' themselves under market conditions, and to help them a substantial literature of the transfer of the practices and concepts of marketing from other sectors to Higher Education has appeared. A quick trawl of the recent educational literature produces plenty of advice on: market attractiveness (Bainbridge, 1997); competitive advantage (Mazzarol & Soutar, 1999); market mapping (Gumport, 1997); student needs (Lin, 1997; Soutar and Turner, 2002); capitalizing on tangible assets (Coats, 1998); advertising (Berger and Wallington, 1996; Jugenheimer, 1995); image management (Ivy, 2001; Koku, 1997; Symes, 1998); tangibility (Yost and Tucker, 1995); products (Chan and Imrie, 1995; Hesketh and Knight, 1999); ITC (Selwyn, 1999); market expansion (Mazzarol and Hosie, 1996; Shinn, et al., 1999; Anttonazzi, 1998); market research (Quirke, 1995); strategic planning (Conway, Mackay and Yorke, 1994) and pricing (Roberst, 1999). In addition, there are the proceedings of the American Marketing Association's Symposia on the Marketing of Higher Education, the annual Higher Education External Relations Association conference plus Kotler and Fox's (1995) (general) and Ryans and Shanklin's (1986) (higher) education texts on strategic planning and marketing.

This impressive list has, as its core, the transfer to education of technical notions of consumption but what it mainly lacks is critical analysis of whether the notions that underpin consumption models in other sector transfer to an understanding of what is involved in

education. Initial success does some overlap, particularly if education is viewed as acquisition, ownership or consumption. However, education ought to be more than consumption (see for instance Lyotard, 1963). This is an important statement if our efforts are not to be misdirected by the market metaphor into educational management practices of a “philosophy of doing business” (Lafferty & Hult, 2000). Foskett and Hesketh (1997), Foskett (1998) and Foskett (1999) have written extensively on the marketing of education and in particular the notion of marketing orientation. For clarification a marketing-oriented organization is one in which the customer is central to its operation, and its emphasis is on satisfying customer requirement.

In his essay, “Cap, Gown, Mouse,” Curry (2003) reports that, “The number of people seeking higher education worldwide has grown exponentially in recent years, rising from 13 million in 1960 to 65 million in 1991. It's projected to hit 130 million by 2010. The developing world is no exception. China, for instance, currently sends 6 percent of its students to tertiary education and hopes to increase that figure to 15 percent by 2010” (p. 102). In fact, the demand for tertiary educational services is increasing more rapidly than developing nations can respond by building universities (Curry, 2003). In response, “Almost all countries have displayed a vigorous expansion in tertiary level education over recent decades. “Almost everywhere this expansion of the tertiary level of education is connected with institutional reforms for the selection, management, and channeling of growing masses of students” (Muller & Gangl, 2003, p. 32). Not surprisingly, many tertiary educational institutions are experiencing a number of other challenges today, including identifying how best to accommodate the increasing number of students, mobilize staff and resources, develop relevant curricula and teaching procedures, as well as remaining competitive during a period of skyrocketing costs (Nevin, 2003). According to Wagner, learners at the tertiary level are “. . . more diverse in terms of their backgrounds, interests and career paths. The new challenge is how to adapt program to student demand, rather than the traditional approach of plugging students into programs” (p.14-15). Not only are the students themselves becoming more diverse in their educational needs, there remains a fundamental lack of access to tertiary educational facilities throughout the developing world today (Nevin, 2003).

In this environment, a superior approach to the promotion of traditional delivery of tertiary educational services would be to find a place for everyone who wanted higher education as means of enhancing skills and knowledge, improving life-chances and addressing the enormous waste generated by social exclusion (Wagner, 1998). In fact, as Ramcharan (2004) emphasizes, “No country has achieved sustained economic development without substantial investment in human capital” (p. 309). Likewise, as Andersson and Gunnarsson (2003) point out, “The expansion of education not only helps generate technical and professional labor for industrial upgrading, but also enhances opportunities for upward social mobility, including skills enhancement and higher remuneration” (p. 113). This point is also made by Barr and Crawford (2005) who report, “Education and training have a number of characteristics that



make them unusual. Though partly enjoyed for its own sake education is, to a large extent, undertaken because it increases an individual's future earning capacity. It has all the characteristics of a personal investment" (emphasis added) (p. 121).

Because it is such an enormous investment of individual time, resources, and effort, the promotion of a tertiary education should focus on identifying what higher education students want and need to learn today. In this regard, Wagner suggests that, "One possible way of doing this is to work more closely with schools as part of the drive to improve their flexibility and understanding of how students want to learn" (p. 16). This approach is congruent with numerous studies that have shown time and again the inextricable association between higher education and expanded employment opportunities (Langouet, 2002).

There are some important constraints and considerations that must be taken into account in developing appropriate promotional plans for tertiary educational institutions in order to ensure their effectiveness, though. For instance, depending on the geographic setting, a promotional plan for a tertiary educational institution could highlight the additional and more lucrative employment opportunities afforded to graduates. For instance, Shavit, Muller and Tame (1998) maintain that the linking of educational qualifications and occupational achievement is the weakest in less stratified and standardized social systems. According to these authors, "In Ireland -- a weakly stratified system -- employers rely on success in school because this is tested according to nationally standardized procedures, and thus workers' credentials represent their respective rank in the job queue" (p. 7). The geographic setting also affects student access to tertiary educational institutions, and while distance learning programs have afforded some relief, much more remains to be done, especially for rural areas. For instance, Moore and Anderson (2003) report that, "Today, most if not all universities engage in some form of distance education, particularly using information technology to deliver online curriculum and support" (p. 379). According to Alston and Kent (2003), "Declining rural access to tertiary education exacerbates power differentials resulting from globalization and restrains access to the opportunities of globalization and hinders rural revitalization. For many rural young people, restricted access to tertiary education is a significant barrier to the development of a skilled knowledge-focused workforce in rural and remote regions" (p. 5). Moreover, many minorities and indigenous populations remain severely underrepresented in tertiary educational institutions around the world. Therefore, any promotional plan designed to improve access to these students would require reformation of existing policies, appropriate levels of funding, involvement in decision making, and reevaluation of the curriculum (Gair, Miles & Thomson, 2005). For this purpose, one analyst recommends that, "The capacities of these institutions need to be enhanced so that they could respond to society's changing needs in the context of an increasingly globalized world economy" (Ruben, 2007, p. 37).

It is reported in the work of Kim-Shyan and Thomas (2000) entitled: "Marketing Education: A Guide to Better Targeting of Malaysian Students" that as funding decreases for tertiary education, tertiary educational institutions in New Zealand "have been forced to fund existing services via other means." (Kim-Shyan and Thomas, 2008). Specifically it is suggested that the tertiary institutions in New Zealand have experienced particular success in marketing their product to students in Malaysia. This segment appears to be experiencing a faster growth internationally than in New Zealand.

In a report by the 'National Agency for European Education Programs, Czech Republic' it is stated that the promotion of higher education is an emerging issues in the Czech Republic." (Babkova, 2008) There is stated to be a lack of a national strategy in the Czech Republic as well as a lack in framework conditions necessary for promoting higher education abroad.

Included in the National Agency for European Educational Program responsibilities and which characterize responsibilities at all national levels are those as follows: (1) building the brand 'Study in the Czech Republic'; (2) participated in higher education fairs abroad; (3) issuing and disseminating information materials; (4) mediating contacts between higher education institutions; (5) giving presentations for foreign students; and (6) involvement in European promotional activities within the Erasmus Mundus programme." (Babkova, 2008)

Surprisingly, there is not a lot of refereed published material on the subject of blogs in general, let alone work that focuses specifically on blogs in education. One article that reflects a little more deeply on the potential of the blog as a tool for the promotion of deeper learning on a variety fronts is that produced by Oravec (2002). In addition to commenting on the advantages of using a tool that serves as an online journal encouraging personal reflection, and as a means of encouraging collaboration through the sharing of links to resources and up to date information, Oravec (2002, p. 618) observes that the blog has many dimensions that are suited to students' 'unique voices', empowering them, and encouraging them to become more critically analytical in their thinking.

Responsibilities at the level of higher education insofar as promotional tools and marketing strategy include those stated as follows: (1) participating at higher education fairs abroad; (2) issuing and disseminating information materials; (3) offering degree programmes in foreign languages, (4) providing scholarships for foreign students; (5) the regional promotion of universities from one city; and (6) making use of agents to recruit foreign students. (Babkova, 2008)

As mentioned by Jonathan Ivy (2001) Higher Education institutions are becoming increasingly aggressive in their marketing activities to convey an image that is favorable to their public, be they prospective students, employers, funders etc. Investigates how marketing is used to convey higher education institution type image in the UK and South Africa. Using correspondence analysis, shows the unique positioning that have been created by the old UK universities, the new UK universities, South African universities and

technikons. Also identifies which marketing tools these institution types use in conveying their institutional image.

Babkova (2008) reports additionally that market abroad “begins at home” therefore a “...review of promotional activities and materials used by the NAEP in the framework of its initiative ‘Study in the Czech Republic’ should be carried out. A proper plan for next year is needed in this field in order to focus on effective activities, useful materials and information sources. The whole initiative should get a better public image and some thought should go into its realization”.

Secondly, Babkova (2008) states that the “involvement of higher education institutions in marketing and promotion issues is needed. There are no seminars focused on international marketing in higher education being organized in the Czech Republic. Nor are there any initiatives aimed at recognizing the priorities and needs of higher education institutions in this field” (2008). Finally, Babkova states that there should be consideration given for “possible new channels for cooperation. (2008)

The work of Larsen and Vincent-Lancrin entitled: “The Impact of ICT on Tertiary Education: Advances and Promises” state that the Organization for Economic Cooperation and Development (OECD) Directorate for Education and Center for Educational Research and Innovation reports as follows: “The promises of e-learning for transforming tertiary education and thereby advancing the knowledge economy have rested on three arguments: E-learning could expand and widen access to tertiary education and training; improve the quality of education; and reduce its cost” (2005). This includes the marketing strategy and tools utilized by tertiary institutions in attracting student to pursue their education in those institutions.

Alam and Khalifa (2009) state in the work entitled: “The Impact of Introducing a Business marketing Approach to Education: A Study on Private HE in Bangladesh” states that the market concept in terms of marketing practice in education are classified as the approach of either:

- product;
- category; and
- brand marketing.

Alam and Kahlifa (2009) assert that state and donor agencies are those most “heavily involved in the marketing of education as a product...” while those most often involved in product marketing are religious groups. In addition, the same authors’ state that education is rapidly introduced and expanded through the provisions of the private sector effectively “opens up the marketing horizon of ‘geographic segmentation in education in order to service the targeted elite groups.” (2009)

Alam and Khalifa (2009), state that marketing in education is not a new concept. The state, partners for development, controlling agencies and providers (schools, colleges, universities, public and private provision) involve themselves in the marketing of education long ago. The state and partners are committed to ensuring that the beam of education enters every household and, to make education popular, different types of education marketing have already been put into place (Alam and Khalifa, 2009).

### **Educational Marketing in Cyprus**

The history of marketing by private institutions is catalogued, albeit in a rather colourful terms, by Koyzis (1987), who claims that the institutions spend a great deal of money and time on advertising (unsubstantiated) and will “go to any and all lengths to attract new students” (Koyzi, 1987:17). In a rather more reliable observation the article lists the marketing activities to include; advertising – print, radio, and television – and college catalogues. They also share a common platform of seeking legitimacy from overt connections to UK and USA colleges and universities, a wide a range of programmes and a focus on the founder of the College. Three universities were established after 1974 in the occupied territories in north Cyprus (Athanasiaides 1998), which meant that the Republic of Cyprus was required to confirm its own legitimacy. In the academic year 1998-1999 the number of universities in the north increased to six and the number of students to 19, 185 (Athanasiaides, 1998). So has the marketing of tertiary education that, according to Koyzis was lacking in veracity changed in Cyprus form this position?

What is still missing is coherence in vision and this together with the ‘peculiarity’ of the Cyprus political structure, shows a lack of cohesion within the Cypriot higher education provision. The policy toward higher education seems to be a hybrid of market intervention in terms of quality control and accreditation plus positive support to public institutions in the market. This leaves the private universities to fight for market share in a biased market where support from the government confers status on an institution. The lack of cohesive offering to domestic and foreign students runs contrary to the developments in France, UK, Germany and many other EU member states who have recognized the importance of competitive positioning of their national education systems. Indeed Haug and Tauch (2001) have noted, “the issue of competitiveness is seen as an important priority for an amazing high number of countries” (p.11).

The drivers of competition in this market for students have been identified as: attracting foreign students, increasing attractiveness in a European Union context and thirdly making the national system more attractive. It is against this background of national competitiveness that Cyprus needs to market its education to its own and to foreign students. For instance attracting more foreign students is seen to be a priority for higher education in the following countries: France, Germany, Sweden, UK, Norway, Austria, Finland, Ireland, the Netherlands as well as Malta, Hungary and Latvia (p.11). What is to be done?

## Research Methodology

Research is a systematic enquiry which is reported in a form which allows the research methods (quantitative and qualitative) and the outcomes to be accessible to others. It is not possible to do research without having a problem which needs to be solved or a question which needs to be answered. This problem or question represents the research topic (Phellas, 2006).

Quantitative research generates numerical data or data that can be converted into numbers (Bandolier, 2007). It can range from simple counts such as the frequency of occurrences to more complex data such as test scores or prices. To be useful these data needs to be analyzed and interpreted and quantitative analysis techniques assist these process. These could range from creating simple tables or diagrams that show the frequency of occurrence through establishing statistical relationships between variables to complex statistical modeling (Saunders et al., 2003: 327).

Since the purpose of this project is exploratory and there is no adequate data published to investigate the Marketing Strategies used by Private Universities in Cyprus and Students' perception of promotional tools used by the universities, qualitative research will be used. Qualitative research is used to explore and understand people's beliefs, experiences, attitudes, behaviour and interactions (Bandolier, 2007). It seeks out the 'why', not the 'how' of its topic through the analysis of unstructured information – things like interview transcripts and recordings, emails, notes, feedback forms, photos and videos. It does not just rely on statistics or numbers, which are the domain of quantitative researchers (QSR International, 2007).

Initially, to capture the domain of the constructs in the research model the author carried out an extensive literature search on Marketing and Promotion of Tertiary Education. Then an exploratory study was performed through in-depth personal interviews with 20 students. Students were interviewed for 60 minutes each. The responses were analyzed through content analysis. Similar method used by Priporas and Mylona (2008), and Mylona and Priporas, (2008) in their studies with university students. This method was used in an effort to identify the major promotional issues that affect student selection in Tertiary Education. Afterwards, three focus groups of University administrative staff were conducted to seek an understanding and develop a language of the university's main marketing issues in all three private universities. As Burns and Bush (2006) has stated, focus groups are used to generate ideas, understand consumer vocabulary and to reveal consumer needs, motives, perceptions and attitudes. The focus groups consisted of five senior managers directly or indirectly responsible for the marketing of the university. The results of the focus groups were used as a basis for developing structured questionnaires that will be used in quantitative research. Although the results can only be considered as tentative at this stage they do shed light on the marketing effectiveness of the private institutions of tertiary education in Cyprus.

The full scale data collection is taking place at the present through personal surveys. The findings will be based on a survey of 400 students from different nationalities. The questionnaires will be distributed to the three privately owned, English speaking institutions in the Republic of Cyprus. The semi structured questionnaire consists of both open and close ended questions and in some cases 5 point Likert scale questions were used. The sample is a non probability, convenient sample from students taking Marketing courses as part of their undergraduate degrees. The students are surveyed in classrooms as part of the research team teaching schedule. The respondents voluntarily participate with no pressure, penalty or reward used for those who did or did not wish to do so. The data will be analyzed using the SPSS package.

## **Analysis of the Results / Findings**

### **In Depth Interviews Analysis**

As stated by students, effectively reaching the new generation of students for student recruitment purposes, and eventually alumni communications, will require a shift from traditional media and messages. First and foremost, neither mass media advertising nor more strident claims about your institution will be effective. The author found that only three of 10 young people believe advertising paints a true picture of a product. This generation is very skeptical about that thing that they understand and that includes media and advertising. That is why simplicity and honesty are often more effective and credible in the admissions process – even if it is not as “slick” as the mass media.

This age group hates to be bored. They seek entertainment in everything they do – this not only includes what they expect from college, but how they get their information. A research study performed by the author in 2007 suggested that the attention span of most adolescents is about eleven minutes – roughly the time between commercials in a typical television show. The need for more exciting and entertaining admissions materials as well a greater use of interactive techniques will become the status quo of tomorrow.

Interestingly, the day of the college video may already be over. Young people see film and video as the ultimate managed medium. After all, they have seen Jurassic Park but they know dinosaurs no longer exist. Great special effect, however, do. The author found that only two out of 10 respondents said a university video had a great impact on a student's decision to apply to an institution. These young people know that you can manufacture a happy campus, complete with happy kids, and shoot a tree from a hundred angles to make it look like a forest. Student produced material (even videos) or an Internet “chat room” where prospective students can ask questions of students, faculty and staff will have greater impact for many students than a flawlessly produced video.

Colleges will also need to be more cautious of the visual images. This generation is visually sophisticated. During the interviews, the author has found that students often ignore the

foreground of admissions photographs and concentrate on the detail in the background. They look for truth in the details, not in the things we want them to see.

The final warning: universities cannot think all students respond alike. In our studies of students concerning admissions communications the author has found a variety of differences. Science students, for example, prefer telephone call to printed materials. Students interested in business are more likely to prefer electronic contacts such as e-mail or the university's own website. Students interested in the humanities prefer student written materials to "official materials of the college."

### **Focus Group Analysis**

#### **Customer Orientation**

The notion of consumer is still problematic in higher educations (Wasmer, et al, 1997) with comments ranging from "I am not sure if we have customers – we have learners who pay", to "we must be customer focused if we are to sell our programmes" which was evident of a general rhetoric of marketing speak within the group. However, this rhetoric failed to be converted into the practice of marketing management. "We attract students by advertising, fairs and personal contacts, it's a matter of doing better than we did last year, X does the local market and Y gets the international students". The development of recruitment plans does not seem to involve faculty directly only in roles subordinate to and supportive of the admissions, "I could do more and would like to be more involved but I get confused about who does what!"

The overwhelming theme of recruitment is of increasing numbers in a sales-driven climate. This may be due to the fact that the private universities suffer from the lack of a financial safety net that the public universities have, a short-sightedness of management on student recruitment or the stage of development of the educational market in Cyprus. Anecdotally it seems to be a mixture of all three. Frequent comments made in the focus group were exemplified by, "I agree we ought to recruit for quality but we need the numbers," "We can't plan until we know the numbers". There is almost a fear of developing a long-term marketing strategy which might make the recruiters/marketers vulnerable to accountability for their performance. One claimed, "the market is too complex, we have to wait and react and then see what happens and what we then need to do".

Research on how students responded to the advertising campaigns is carried out and used to inform the agency for further campaigns. However, the style of the promotion and the relationship with the agency is personal to the Owner/ President, "I see it is my responsibility to keep our image consistent, I am the guardian of the Institution's image". Although this creates cohesion it fails to pick-up and utilizes the information available throughout the university's staff. There is little attempt made to educated potential students as to the different benefits provided by the different private universities' pedagogical style and the college's positioning strength.

Finally, there is a pervasive 'sales' rather than a 'marketing' orientation in all the discourse with emphasis on increasing sales with less concern for satisfying customer needs by designing the appropriate services. There is limited, if any, consumer research and where it is present it is used to correct staff performance, not to change corporate culture.

### **Integrated Marketing Organization And Communications**

There are no long-term marketing strategies incorporated into the colleges' strategic plans. Marketing is treated as an independent part of the business plan but not reflecting any of the organizations' objectives and generally unrelated to the overall organizational objectives. The overwhelming feeling was of a lack of a co-ordination, marketing seen as advertising (although the Presidents understood the importance of design in the marketing mix), individual decision-making confused by role ambiguities and no long-term strategy other than to "increase the numbers".

Significant in the discussions was the lack of setting marketing objectives by the universities and this was partially evident in the policy used towards international agents. No standards of performance had been given to the representatives and no targets are given for international recruitment when attending exhibitions – "It is very difficult to measure, so many other factors are involved and it can take years before someone we have seen applies". Little use of marketing theory or transfer of experience from other sectors have been used or indeed appears have been consulted.

Issues of academic quality were viewed as external issues, "It is important how many accredited programs we have, university X claims more and is gaining more students", and "We get the students when we get to see them but if they just check with SEKAP (accrediting body) they see X has more programs and go there first".

The lack of marketing awareness is compounded by the antithesis to marketing that seemingly is still found in academic communities (Swenson, 1998). The majority is academics involved in the marketing and recruitment from a number of different fields, where on-the-job training is usually provided but they have no concept of student/customer orientation, target marketing, customer satisfaction or any other marketing function. One academic we spoke to said, "Marketing has nothing to do with higher education, at least nothing to do with me". This attitude tends to undermine any good marketing practices. However, this attitude might be a function of poor internal communication and an unwillingness to involve academics early in the planning and implementation process.

The notion of 'integrated marketing communications' seems to be confused with a notion of needing to know. Communication methods used often were incompatible with the message and lacked the internal constituency of the colleges interviewed. Often staff "read about what we were doing in the newspaper". Most activities are repeated out of habit or in an



effort to simply copy what other institutions' competitors do – "I do what I am told to do, it's really the same every year, rush around, panic, get the numbers and then the lectures!".

### **Budget**

A manifestation of the notion that marketing is sales recruitment is in the development and utilization of the marketing budget. Its calculation is often unknown, ("I only look after conferences so I don't know what we spend"), unaccountable, ("the Enrollment Manager handles it – it must be quite a lot") and often unaccountable as was identified by recruitment fair expenditure. As in many other organizations the budget is a manifestation of the power of the holder. Little collaborative input is made; it is decided top down without inputs.

The budget is usually negotiated or approved by the board of directors/executive council/president of the institution but it rarely reflects the cost of the marketing activities and often it is agreed without a plan, "it is gifted, often as an act of faith". As one academic stated, "It seems that they take last years figures and add some more. When it runs out we might spend more in some areas and none in the most deserving – mine!"

### **Discussion**

Student welfare is high on each institution's priorities and considerable success has been achieved in increasing student numbers. This, however, seemed to be in response to demand created not by the private universities, but from their particular position in Cyprus and regional educational markets (indeed the mention of a positioning statement was almost absent from all our discussions – "we have a good location") but is a response to external contingencies such as fee support and the crisis in a visa application created by the 11 September 2001 atrocity. This we see as problematic for the long term sustainability of the educational institutions and for the national goal of being a centre of excellence in higher education when Cyprus opens its markets to European based universities who have a more professional and focused approach.

What is needed, the author suggests is the adoption of an educational marketing perspective that re-defines the notion of customer and other elements of marketing mix (Gibbs, 2002) and operates both on national and institutional levels. This requires collaborative competition, a clear mission for the country's higher education (Tsakkiros, et al, 2002) and; a will to see the development of a marketing strategy that is sustainable and proactive. It requires a cultural change in the way the institutions think and act in their interfaces with potential recruits, building long-term mutually beneficial relationships. Such a change seems unlikely at the moment in terms of the educational institutions and it is compounded by the educational infrastructure that regulates them. This ranges from dependence upon the principles of governance of public universities, the accreditation of the private institutions and the internal ambiguities of accreditation by national and international bodies.

One respondent who said, “We need the Government to continue to support us but they must be market responsive as well”, encapsulated the situation. “They need to show that they understand our problems as well as their own.”

### **Managerial Implications**

This study even though qualitative in nature has contributed to the knowledge of Marketing of Tertiary Education. It should be noted however that this study was qualitative in nature and the focus was explicitly on obtaining depth of understanding rather than generalization. More research is needed to better understand the current state of Promotion of Education in Cyprus. The sample used at this exploratory stage was adequate for the purpose of the study and allowed reasonable conclusions to be drawn. The findings however are not conclusive by the sample and measures used. The research has shown that the marketing of Cypriot higher education is still product driven, which implies a sales rather than a marketing focus. There is often an awareness of the need to apply to holistic marketing philosophy but these aspirations are restricted by short-termism encouraged by the government’s attitude to private education and the institution’s own financial goals. This is problematic, for the realization of Cyprus as a centre of excellence is on the shoulders of the private colleges.

We recommend that, like other European countries, the government either applies a fair market mechanism or it develops a strong marketing strategy that embraces all higher education institutions. Not to do this will ensure failure to match its goals, increasingly waste its marketing resources and, we predict, lead to decline in the number of students attending Cypriot institutions.

Additionally, colleges and universities must re evaluate the traditional communication methods used with more personal ways to reach an increasing number of interested students who are looking for entertainment in every message they receive. As one can now tell these are not futuristic and far-fetched predictions. All the areas discussed already exist at numerous institutions. The public relations and promotional experts on campus must see the “big picture.” They must be able to explain who their audiences are, what motivates them and how to reach them. Regardless of the current limitations, the study brought to light some findings which may assist Marketing Officers/Enrollment Managers of Private Universities in better understanding of how students/customers respond to their Marketing Activities.

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## ASSESSING AND MEASURING SALES CULTURE WITHIN COMMERCIAL BANKS IN JORDAN

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### Abstract

This study aims at and assessing, and measuring the sales culture in the commercial banks in Jordan. The study has been conducted on a convenience sample of (1000) employee selected from the customers of all the commercial banks operating in Jordan. The total number of those banks is (23) of which (13) banks are Jordanian, while the remained are non-Jordanian. Sales culture was measured by using the Sales Culture Index (SCI), consisting of (80) statements. The index was developed by the researcher based on a comprehensive review of the relevant literature. And the comments submitted by the senior managers in those banks during the in-depth interviews conducted by the researcher. The findings of the study indicate that the overall employees' perception of sales culture in the surveyed banks is moderate. However, it should be noted that the sales culture in the non-Jordanian banks was stronger than that in the Jordanian banks. It also was found that non-Jordanian banks were more customer-oriented than the Jordanian. As it is the case in any study, some limitations relevant to this study cannot be abandoned. For instance, the findings of this study are based on self-report perceptions of both, the employees and customers. Data collected by this approach may or may not be an accurate to that extent which reflects the respondent's real feelings. Another additional limitation is that the participants of this study were bank executive managers (46.5%) and frontline employees (53.5%). By virtue of their positions these have different insights about what is happened within the banks. Executives should be able to observe the bank as a whole and should have strategic insight of the bank that may not be available to lower level employees. The results of this study would enable the management in the commercial banks in Jordan to design internal marketing programs aimed at building a strong service-minded sales culture employees and improving the quality of their services. This requires more attention to employees' feelings, recognition of employees as invaluable assets to the bank, and frequent interaction between employees and management. Accordingly, employees lacking a strong sales culture are inappropriate to be assigned with customers accounts needing long-term relationship. The management's commitment to sales culture and service quality should be extended to strengthening the internal relationship. Within this context, the results of this study should enable the management in the commercial banks to design internal marketing programmes aimed at building a strong sales culture. Training managers in the commercial banks in

Jordan should incorporate sales cultures components into their programmes aiming at developing and improving the interpersonal relationships. This also helps bank employees to appreciate how much their contribution to their banks will be. The study is a first research attempt which aims to assess and measure the sales culture in the commercial banks in Jordan .

**Keywords:** Assessment, Banks, Sales Culture, Jordan, Employees, perception

## Introduction

Commercial banks in Jordan have a vital role in the socio-economic development process. They are more influential in the whole economic system than other institutions, and they have positively contributed to all developmental efforts carried out by the government. In the past ten years, noticeable developments in the Jordanian banking sector have occurred, in terms of the number of banks, their sizes, and their operations. Moreover, the banks are intensively applying advanced information technologies in performing their operations. In Jordan, total of (23) commercial banks are operating. These banks are divided into two broad categories: 13 Jordanian banks, and 10 non-Jordanian banks. In such a competitive market situation, banks must consider the transitioning from being an internally-focused, transaction-oriented culture to a customer-focused, sales-oriented culture. Failure to align with this line of thinking will threaten the bank's growth and its survival. This strategic objective can be achieved through improving the selling effectiveness of bankers in commercial banks in Jordan. Despite the fact that some of these banks have devoted acknowledged efforts in this direction, few have actually created the sales cultural environment. Management's recognition of this must be translated into effective action plans and programs. The researcher realized this from the long conversation he has had with bank executives over the past several months concerning problems they were experiencing in developing sales programs in their banks. Marketing directors complained that the top management wants a selling program, but they are unwilling to set the priorities and invest the amount required to get the job done. However, the real problem is not that top-level managers are unwilling to take the necessary steps, but rather they are unsure of what they have to do.

## Research Objectives

Establishing a sales culture in banks requires major changes in their organizational culture. However, if these changes are to be induced many challenges are to be expected. Thus, the present research paper aims to:

1. Explore the concept of sales culture within the banking industry in Jordan, and increase the management's awareness of that concept.
2. Provide an overall and reliable measure of sales culture in banking industry.
3. Measure the employees' perception of sales culture in the commercial banks in Jordan,
4. Determine the significant differences between Jordanian and non-Jordanian banks regarding the employees' perception of sales culture.

5. Provide the bank practitioners in Jordan with the database that may help them in designing sound and effective marketing strategies.

## **Review of Relevant Literature**

### **The role of employees in service delivery**

One of the most important characteristics of the service is the inseparability of its production and distribution. Within this context, the employees of a service organization have a vital role in its success. The importance of employees in service marketing is captured in the people component of the service marketing mix (Zeithaml et al., 2006). Berry (1981) referred to employees as the "internal customers" of the organization for which they worked, and suggested how management could adopt marketing tools and strategies to communicate more effectively with employees. It should be understood that the primary image that a customer has of the service organization is formed through his interactions with the employees of that organization. Therefore, employees can directly influence customer satisfaction, and perform the role of marketers. Accomplishing all this usually requires employees of high levels of sales culture

Interactions between customers and the employees of the service organization bring both parties physically and psychologically close and have a strong impact on the service performance (Luk, 1997). Also, it could be added that quality of service is assumed to be a function of employee-customer interactions (Parasuraman et al., 1988). This type of mannerism is implied in the employees' sales culture.

However, exhorting employees to behave in specific ways that will enhance the effectiveness of their interactions with customers, and in turn improve the bank's competitiveness is likely to fail if employees lack the necessary knowledge, skills, and appropriate attitudes toward customers. In banking services, the need for all this is not limited to operating personnel, but it should be extended to help development and promoting a sales culture from the bank top to its front-liners. The service delivery variations that reflect individual skills, talents, or other qualities of personnel provide a way to differentiate the bank's services and to create a competitive advantage. Bank managers should acknowledge their need to adopt new strategies to stimulate, motivate, and empower their employees. This represents a competitive edge, and a strategic component in the network of management's network activities that must be performed (Kaplan & Johnson, 2006).

### **Sales culture for commercial banks**

It should be noted that the behaviour of employees in an organization will be heavily influenced by the culture of that organization. Organizational culture has been defined as a set of shared values and beliefs that give the members of an organization meaning, and provide them with the roles for behaviour (Davis, 2005). When the organizational culture exists, employees interact with customers without any supervision, because they depend on



their values, beliefs, and feelings (Zeithaml et al., 2006). Within this context, the organizational culture generates the spirit which can trigger the employees' professional selling behaviour.

Pioneers have tended to use marketing culture and service culture interchangeably (Webster, 1993; Schmalense, 1985). Few scholars were able to identify some essential components of a service culture (Webster, 1990). Through culture, individuals can communicate their experiences, solutions of problems, and life styles to one another and to the next generation, and they can add continuously to their heritage of skills and knowledge (Argyle, 2003). Corporate culture implies unwritten decrees, rituals, and patterns of shared values and norms which permeate organizations (Deshpande and Webster, 1989). These cultural values are important for guiding employee behaviour in the service organizations (Schneider, 1986). From this contextual framework, banks are not exceptional. They, like all other organizations, have such a culture (i.e., a set of commonly shared values and norms).

The early initiatives to apply the concept of sales culture in banks were based on principles borrowed from the general services and relationship marketing literature. It has been argued that adopting a sales culture in banks should be based on two principles (Shemwell and Yavas, 1998). First, banks should assure relationship oriented selling (Bird and Bradshaw, 1996). Second, everyone in the bank must be a salesperson. Within this context, a sales culture is an integral part of the organizational culture with a proactive approach to relationship based selling (Leach, 1995).

Shemwell and Yavas (1998) emphasized the importance of the sales function, organizational devotion, leadership involvement, customer orientation, quick feedback from external and internal customers, as pre-requisites for establishing the

### **Concept of sales culture in banks**

It should be assured that the bank employees' behaviour throughout their interaction with customers is a function of their sales culture and the socialization process occurring in selling situations. David (2001) explored some sales culture variables within the banking industry. These variables are: sales training, rewarding employees, practicing relationship activities, and the management's commitment. He indicated that banks high in sales culture report that their employees receive more hours of sales training than reported by low sales culture banks. Also, high sales culture banks were found to be more frequently using performance-based pay.

Within this context, open communications of performance information contribute to a large extent to creating the opportunity for a new managerial perspective, which must be integrated with the bank's sales culture. This pattern of integration will allow employees to have a bank-wide view, and help them to build their own roadmaps to the knowledge and expertise they need to establish better relationships with customers. Also, this knowledge will make it easy for employees to be totally objective about their performance, and as a result

create the sense of teamwork based on their sharing professional sales knowledge. This helps opening new horizons for their sales culture which can be intercepted with the total bank culture.

The key individual level determinants of a salesperson's performance are aptitude, personal characteristics, role perceptions, and motivation. Sengupta et. al. (2000) emphasized that strategic ability and entrepreneurial ability are significant determinants of a salesperson's effectiveness. The influence of these two factors was mediated by two relationship-process variables: communication quality and customers' trust. 'Strategic ability' refers to the cognitive capacity of a salesperson to analyse customer, organizational problems and focus on their long-term interests. 'Entrepreneurial ability' is a key salesperson's ability to locate personal or other resources within the firm and deploy them to assist the customers, and to operate for their best interests.

In addition, adaptation and communication apprehension (Pitt et. al., 2000), and interpersonal listening skills (Castleberry et. al., 1999) were found to affect the salesperson's performance. Cultural values also affect the performance for inter-personal communication tools.

In his extensive research, Berry (1985) defined sales culture in terms of the following dimensions: Customer-focus, attitude toward selling, the feelings of teamwork, the institutional pride, the management commitment to selling, and, finally, the trust in the employees' selling abilities

The employees' understanding of the sales culture must be extended to considering the future consequences of their courses of action. Selling through long-term adaptiveness of the sales culture (Goolsby et. al., 1992), and personality traits (Dion et. al., 1995), represent basic qualities that have been associated with the employees' selling performance. It could be indicated that there is a wide acknowledgement of the fact that a key factor to organization's performance is being able to maintain an effective customer relationship (Anderson & Oliver, 1987). Schultz and Good (2000) suggested that salespeople are often deployed in one of two diverse situations. The first results where salespeople are primarily directed by selling concerns and associated activities, and the second occurs when salespeople primarily take a customer oriented perspective. Following the first, a salesperson is trying to satisfy his selling needs, while he tries to satisfy the customer's needs if he follows the second. Due to the nature of these conditions, a selling orientation appears directed initially to satisfying the salesperson's (employee) needs. In contrast, a customer orientation focuses on the customer's needs, which in turn suggests a willingness to work with clients over extended periods. Thus, the orientation adopted by the salesperson influences the selling processes, techniques, and strategies (Saxe and Weitz, 1982).

The assumed relationship between the customer-oriented selling and the salesperson performance is based on the belief that the customer bonds with the organization are

strengthening over time; they always tend to satisfy customers' needs, and therefore, they must be willing to devote considerable time to understanding the customer's basic needs and then satisfying them through the sustainable relationship with customers. A number of studies have related customer-oriented selling to successful marketing organizations (Deshpande et. al., 1993; Jaworski and Kohli, 1993), as well as to the individual salespersons (Brown et. al., 1991). This relationship was extensively examined by Schultz and Good (2000). The findings of their research indicated that the selling and customer orientations were positively related to the long-term relationship. The researchers concluded that salespeople with a greater consideration for future sales consequences including compensation were more likely to have a successful relationship with customers. So, banks interested in engaging in long-term relationships with their customers may benefit when they craft compensation systems.

Today's banks must contend with ever increasing competitions, while at the same time dealing with changing customer requirements, and unprecedented technological change. Further, changing government regulations, such as the recent international wave of deregulation, must dramatically change the strategies by which banks can maintain and increase profitability (Houston et. al., 2001; Cooper, 2000). Churchill et. al. (1985) have concluded that developing an organizational culture that truly values its customers is essential to creating a high quality of services and ultimately to satisfy customers. Narver and Slater (1990) termed such an organizational culture a "market orientation". A hallmark of the market orientation is the belief that all the employees in the organization are responsible for selling, and more specifically, understanding customers and providing them with value (Webster, 1988; Parasuraman, 1986). It should be noted that market orientation is a major component in the organization's sales culture.

Maloney and Boulay (2009) indicated that sales culture banks require an integrated behavioural change process. Many banks have adopted a traditional orientation on their own-teller training, customer service, supervisory training and strategic planning. Some of them have implemented total quality or re-engineering initiatives. Yet, many find out that results are not consistently providing the optimal. The reality of most of these initiatives is they fall short of the management's optimism, not because the process does not work, but to make it work, management must first understand what has to change in its culture. Developing such culture requires a change in thinking, behaving, communicating and learning. Changing to a sales culture is essential for bringing in more customers and realizing improvements. Management has to change the entire culture of doing business to create a sales culture. It must change the way of thinking, behaving, communicating and learning.

To be successful, management must consider changing its attitude to look at sales from a different perspective. A bank needs new customers and must retain existing customers. Therefore, the sales challenge is how to get every employee in the bank focused on getting

customers and keeping them. For the bank to prosper, employees should be convinced that their initiatives are necessary to the sale. So, it seems logical that sales culture concerns making all employees a part of the sales process (Vincent, 1999).

Narver and Slater (1990) demonstrated that a market-orientation can have a substantial positive effect on an organization's profitability in their three basic components model: customer orientation, competitor orientation, and inter-functional coordination. Customer orientation means that employees should be able to create superior value for customers continuously, while competitor orientation was defined as understanding the short-term strengths and weaknesses as well as long-term capabilities and strategic competitor. Inter-functional coordination measures the utilization of organization resources in creating superior values for customers.

It should be stated that the bank's distinctive, embedded competence, and employees' sales culture determine the form of the bank's tacit knowledge, and it would be very difficult for the competitors to imitate its offerings.

### **Hypothesis of the Study**

Based on the previous literature review of the sales culture, it could be concluded that every employee who interacts with customers in any way must have the appropriate skills, knowledge, and a set of professional selling cultural values (sales culture) to respond efficiently and effectively to customers' needs. This seems especially true in commercial banks as all employees are expected to sell. The literature review indicated that high levels of profitability from current customers, and few lost customers are strategic goals which should be achieved by the bank management. Hence, the following four hypotheses investigate several aspects of this research:

**H01:** The overall employees' perception of sales culture in the commercial banks in Jordan is low.

**H02:** There are no significant differences between the Jordanian and non – Jordanian banks regarding the employees' perception of sales culture. .

**H03:** There are no significant differences between the Jordanian and non-Jordanian banks regarding the employees' perception of sales culture on all sales culture dimensions.

**H04:** The employees' perceptions of sales culture in the commercial banks is varied according to their demographic factors (gender, age, position in the bank, and the length of work experience).

### **Research Methodology**

In order to collect data concerning the employees' perceptions of the sales culture in commercial banks in Jordan the following research methodology was employed. This permitted an investigation of the different aspects of this research.

### **Sales culture survey**

Survey scope: The data required for this research was collected from the 23 commercial banks operating in Jordan, from of which 13 banks were Jordanian, while the remained were non-Jordanian. Initially, interviews with senior managers from the participating banks were conducted to collect qualitative information about their attitudes towards sales culture building programmes in their banks. During those interviews the managers explicitly indicated that their banks had introduced orientation and selling training programmes to develop and improve their selling skills, and to cultivate a sales culture. They also added that in order to improve the service quality provided by their banks, most of those banks used questionnaires to measure customers' perception regularly. The findings of those interviews were used as major inputs for sales culture scale development, some banks also used to conduct telephone surveys to measure customers' satisfaction with the employees' behaviour through their interactions with them. The managers also mentioned that their banks had launched what so-called a code of "politeness and ethics "to augment employees' awareness of the customer service and the importance of courtesy to their customers.

### **Measurement of sales culture**

A self-structured questionnaire was designed to collect two types of data: the first is demographic, including gender, age, education, marital status, position, and work experience. The employees' perceptions of sales culture were collected by the Sales Culture Index (SCI) 80 statements included in the questionnaire (see appendix 1). Employees were asked to place their responses on each of the sales cultural statements by scoring on a 7-point scale ranging from "strongly disagree" (1) to "strongly agree" (5) The overall aggregate mean represents the index of strength or weakness of employees' perception of sales culture .The (SCI) used in measuring the sales culture was based on the instrument, initially designed by Webster (1993) to measure the marketing culture. Webster's instrument consisted of a number of items aimed at essential components of the service firm's marketing culture. It was first developed in 1990 in a cross-sectional study and was refined in 1993 in terms of both content and convergent validity. Webster advocates that the instrument should be "a fairly universal scale whose items and properties would be applicable to a wide range of services"(Webster, 1993: Luk,1997).The (SCI) developed in the current research largely depended on Webster's instrument with some adjustments which have been added in the light of the outcome of the interviews conducted with the senior managers of the commercial banks in Jordan.

### **Reliability and validity test**

The reliability test was applied to examine the internal consistency of the dimensions of the sales culture in the questionnaires. The results showed that the value of Cronbach coefficient Alpha was (0.91), indicating that there is a good internal consistency among items within

each of the dimensions of the sales culture. These results enhanced both the internal and external validity of the study and reinforced the generalization of the results

### Sampling procedure

The data were collected from a convenience sample of (1000) employees selected from (14165) which is the total number of employees in all the participating banks. Initially, the size of the sample was statistically determined according to the following equations:

The size of this sample was statistically reached as follows:

$$\eta_o = \frac{N}{\left[ N * E^2 \right] + 1}$$

Where;

$\eta_o$  = refers to the sample of employees

N = refers to the total number of the employees (14165)

E = refers to the allowed error (0.04)

Applying this equation, the following sample size was reached:

$$\eta_o = \frac{N}{\left[ N * E^2 \right] + 1}$$

$$\eta_o = \frac{14165}{\left[ 14165 * 0.04^2 \right] + 1}$$

$$\eta_o = \frac{14165}{22.664 + 1}$$

$$\eta_o \approx 600$$

In order to increase the external validity of the study, the sample size was raised to (1000), (500 for each of the two bank categories). In order to have data from this sample a total of (1330) questionnaires were randomly distributed to the employees in the (23) surveyed banks. Accordingly a total of (1000) questionnaires were returned, with a (75%) rate of response.

## Findings and Discussion

### Characteristics of the sample:

The findings of the study showed that (9%) of the employees were branch managers, (17.2%) executive managers, and (20.3%) department officers. The considerable percentage of senior managers included in the sample has two major advantages:(a) senior managers tend to be an essential element in establishing and promoting the sales culture in the banks ,and (b) by virtue of their positions, senior managers have the opportunity to observe all the

elements of the overall strategy and operations applied in the bank( Shein 1985; Sheriadan 1998; Vincent 1999). In addition, the findings of the study also indicated that (92.9%) of those employees were between 20 to 43 years old, and also almost (73.4%) of them were males and have more than (5) years experience in banking.

### **Employees' perception of sales culture**

The overall employees' perception of sales culture was measured by the aggregate mean of their scores on the (80) statements. This mean represents the index of strength or weakness of the employees' perception of sales culture. Adopting the American Bank Marketing Association ratings regarding the sales culture (Berry,1985), a perfect score would be (100) based upon a rating of "strongly agree" (5 points) on each of the (80) statements. It could be concluded that each point of the scale has (20) scores as follows:

1 = 20 points; 2 = 40 points; 3 = 60 points; 4 = 80 points; 5 = 100 points

Thus, the following three evaluative rating levels of sales culture are considered

1. High (strong) sales culture if the mean score is more than (4), above (80).
2. Moderate sales culture, if the mean score is (3-4), (60-80).
3. Low (weak) sales culture, if the mean score is below (3), i. e., below (60).

Within this context, the findings of study indicated that the mean score of the overall employees' perception of sales culture was (3.73) for the whole employees' sample. When this mean score was adjusted to the previously mentioned evaluative rating, it was equal to (74) out of (100), which means that the overall employees' perception of sales culture was moderate. This means that the first main hypothesis (HO1), which states that the employees' perception of sales culture is low (weak) was rejected. This suggests that the commercial banks in Jordan have made some progress in building the sales culture among their employees, but still have more efforts to be devoted in this regard.

Cross-classifying (SCI) scores among various breakdowns of the surveyed banks reveal several statistically significant results. The data presented in table (1) shows the mean scores and standard deviations of the sales culture and its dimensions. Employees of the non-Jordanian banks had a stronger sales culture than what the employees of the Jordanian banks have (79, 65, respectively). It could be concluded that the second hypothesis (HO2) which states that there are no significant differences between the Jordanian and non-Jordanian banks regarding their employees' perception of sales culture was rejected. This result suggests that non-Jordanian banks have made a substantial progress in building sales culture among their employees, compared with what was done by the Jordanian banks.

Significant variations were detected in the employees' perception of the sales culture dimensions between Jordanian and non-Jordanian banks. For instance, Jordanian banks scored low (below 60 percent) on the dimension of customer-focus, while non-Jordanian

banks scored moderate (64) on the same dimension. Meanwhile, the employees of both Jordanian and non-Jordanian banks had a moderate level of the perceived sales culture on the remaining sales culture dimensions.



<div>Dimension of sales culture</div> <div>Nationality of the banks</div>	Customer focus	Attitude toward selling	Sense of team	Institutional pride	Top management commitment	Trust and faith in employees	Overall sales culture
Jordanian Banks	2.9)	3.4	3.4	3.5	3.5	3.4	3.2
Strength*	(58)	(68)	(68)	(70)	(70)	(68)	(65)
Non-Jordanian Banks	3.5	4.3	4.2	4.1	4.2	4.2	4.0
Strength*	(70)	(85)	(82)	(82)	(83)	(84)	(79)
Overall	3.2	3.8	3.8	3.8	3.8	3.8	3.7
Strength*	(64)	(67)	(76)	(76)	(76)	(76)	(74)

\* Strength refers to the American Bank Marketing Association ratings of sales culture (see page 8):

80 and above: strong.

60-80: moderate.

Below 60: weak

Table (1): Mean scores of the six dimensions of employees' perception of sales culture in commercial banks

Thus, it seems that the banks operating in Jordan gave varied priority to fostering the customer-focus dimension of the sales culture. Non-Jordanian banks appeared to recognize the importance of the customer-orientation and interpersonal relationships in delivering their service. In contrast, Jordanian banks seemed to place less emphasis on that dimension.

### **The effects of demographic factors on the employees' adoption of sales culture**

Another major hypothesis of this study was relevant to the possible significant difference in the employees' perception of sales culture according to some demographic factors, such as gender, age, position in the bank, and the length of work experience in the banking sector. To test this hypothesis, analysis of variance was conducted, and the results of this analysis indicated that except for the age and length of work experience, demographic factors had no effects on the employees' perception of sales culture, which means that the fourth hypothesis was partially accepted. Table (2) shows these results.

<i>Source of variance</i>	<i>Sum squares</i>	<i>Degrees of freedom (df)</i>	<i>Mean square</i>	<i>F</i>	<i>Sig.</i>
<i>Between groups</i>	22.230	5	4.445	7.613	0.001
<i>Within groups</i>	1036.550	994	1.042		
<i>Total variance</i>	1058.780	999			

*Table (2): The results of (ANOVA) regarding the effects of employees' age on their perception of sales culture*

The findings shown in table (2) indicate that the calculated value of (F) is (7.613) with (5 ; 994) degrees of freedom, and (0.000) level of significance. When this value of (F) was compared with its critical (tabulated) value, which was (1.67), with the same degrees of freedom and level of significance, calculated (F) was found to be greater than its critical value. This means that the hypothesis stating the overall employees' perception of sales culture is varied according to their ages was supported.

On the other hand, table (3) presents the results on the effects of work experience on the employees' perception of sales culture as follows:

<i>Source of variance</i>	<i>Sum squares</i>	<i>Degrees of freedom (df)</i>	<i>Mean square</i>	<i>F</i>	<i>Sig.</i>
<i>Between groups</i>	27.50	4	6.874	11.728	0.006
<i>Within groups</i>	1031.28	995	1.036		
<i>Total variance</i>	1058.78	999			

*Table (3): The results of (ANOVA) regarding the effects of work experience on employees' perception of sales culture*

As it is shown in table( 3 ), the calculated value of (F) is (11.728) with(4; 995) degrees of freedom, and (0.006) level of significance. When this value was compared with the critical value of (F), which was (1.67) with the same degrees of freedom and level of significance, it was found that calculated (F) is greater . Therefore ,It could be concluded that the fourth hypothesis (HO4), which states that the employees' perception of sales culture is not influenced by the length of their work experience was also supported. Both findings are logical in the light of the cumulative nature of the sales culture construct. The older the employees are, and the longer their work experience are the stronger their sales culture will be.

### **Practical Implications**

In deregulated financial markets, many banks are realizing the necessity of having a competitive edge over their competitors. They should develop more proactive marketing strategies to find and keep customers. A part of this strategic option is that the management must devote more intensive efforts towards building a sales culture. The findings of this study do lead to some potential ideas regarding a well-managed quality assurance and sales culture.

The findings of this study indicate that sales culture as it has been perceived by the employees of the surveyed banks was moderate. In his definition of marketing culture, Webster (1993) emphasized on service quality as a major dimension of that culture. In fact, some significant values such as, the strong commitment by top management towards the quality, regular measuring and monitoring of employees' performance, customer focus, strong interpersonal relationship, and the employees' attention to detail in their work. The interpersonal relationship includes attention to employees as invaluable asset to the service firm. It is also considered the core of the sales culture. Frequent Interactions between the employees and senior management will encourage and augment the bonds and create a favourable organizational environment and in turn enhance the employees-customers relationship. The importance of this line of thinking is increase when it is linked to the inseparability between the bank service production and distribution. It should be mentioned that during the interaction situation the customers may turn to employees for information required to completing some transactions, or even handling any complaint they have. In such these high contact situations this kind of participation behaviour would be very necessary for the sustainability of the relationship, and in turn has a direct impact on the customers' satisfaction. This indeed, will lead to effective interdepartmental coordination and cooperation. The differences among the commercial banks in Jordan can be attributed to this pattern of selling methodology.

Accordingly, employees lacking a strong sales culture are inappropriate to be assigned with customers accounts needing long-term relationship. The management's commitment to sales culture and service quality should be extended to strengthening the internal relationship.

Within this context, the results of this study should enable the management in the commercial banks to design internal marketing programmes aimed at building a strong sales culture. Training managers in the commercial banks in Jordan should incorporate sales cultures components into their programmes aiming at developing and improving the interpersonal relationships. This also helps bank employees to appreciate how much their contribution to their banks will be.

### **Limitations of the Study**

As it is the case in any study, some limitations relevant to this study cannot be abandoned. For instance, the findings of this study are based on self-report perceptions of both, the employees and customers. Data collected by this approach may or may not be accurate to that extent which reflects the respondent's real feelings. Another additional limitation is that the participants of this study were bank executive managers (46.5%) and frontline employees (53.5%). By virtue of their positions these have different insights about what is happened within the banks. Executives should be able to observe the bank as a whole and should have strategic insight of the bank that may not be available to lower level employees.

### **Suggestions for Further Research**

The insight reached from this study may be just as enlightening as more replicating research is to be conducted. Further, the next suggested research should identify expected antecedents and outcomes of sales culture and to develop what can be considered as a psychometric sound sales culture scale. If this study was applied to other service organizations, this would expand our understanding of the adoption of sales culture to those organizations. This in turn suggests that with more validation the conclusion derived from this study could prove to augment many of the managerial activities such as recruitment, selection, and training.

### **Conclusions**

The purpose of this study has been to assess the sales culture in the commercial banks in Jordan. The findings of this study have shown that sales culture as it has been perceived by the employees of those banks was moderate. However, it was stronger in the non-Jordanian banks than that in the Jordanian banks. The implications of this study suggest commercial banks can more productively assign relational customers to employees, based on their inclination to consider the long-term relationship with customers. This study also emphasises the importance of establishing a sustainable relationship with customers, and the necessity of having the effective management for this relationship.

### **Biography**

Naji Deeb Mualla is a Professor and Consultant of Marketing at New York Institute of Technology, NYIT, Holding a PhD from Strathclyde university, England, I have published

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## **PURE GENERIC COMPETITIVE ADVANTAGE AND MARKET ORIENTATION: A TWO-DIMENSIONAL SOLUTION**

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### **Abstract**

The purpose of this research is to investigate the various advantages of having a “pure” generic competitive advantage (GCA), cost leader or differentiator, and to suggest a two-dimensional GCA paradigm, pairing it with the other important component of the firm’s strategy definition, namely the markets in which the industry competes. This proposition might explain why some scholars still advocate the benefits of being both cost leaders and differentiators, and suggest that the firm should adopt a pure GCA in any defined market.

This conceptual paper revue all previous research published on the subject of pure vs. hybrid GCA and support the viability of its proposition by four case studies.

The findings demonstrate that the two dimensional suggested solution solves the contradictory results presented so far and suggest a model which explains how the pure GCA results in better economic results over the none pure GCA alternative.

This conceptual research and its suggested two dimensional solution as well as the model which explains how the pure GCA results in better economic results over none pure GCA alternative, needs further empirical research to substantiate them.

There is an advantage in adopting a strategy of pure generic competitive advantage, either as “cost leader” or “differentiator”, but this decision should be made together with the marketing strategy.

**Keywords:** Pure generic competitive advantage; marketing.

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### **Introduction**

Since Porter (1980) introduced his ideas of Generic Competitive Advantage (GCA), as a way to get a superior return on investment for the firm by developing a competitive advantage, the question of the benefit of following a “pure” GCA, either cost leader or differentiator, against that of following both advantages at the time was not resolved. Porter (1980) argument that all strategies can be placed along the continuum between “differentiation” and



“cost leadership” can be considered as his most seminal contribution to management thinking (Campbell-Hunt 2000, Raynor 2007) and remains of current interest to scholars in the field of strategy and marketing (Helms et al. 1997, Parnell, 2000, Thornhill and White 2007). Porter also argues that firms can sometimes successfully pursue the two strategies of cost leadership and differentiation simultaneously, but it is rare and that these firms will end up “stuck in the middle”, virtually a guarantee of low profitability.

Some other scholars argue that a firm can be simultaneously and successfully both cost leaders and differentiators (Phillips et al. 1983, Murray 1988, Hill 1988, Miller, 1992, Reitsperger et al. 1993, Helms et al. 1997, Kim and Mauborgne 2005). Another view is presented by Miller and Friesen (1986a,b), who argue that a successful differentiator can improve his cost leadership position and a successful cost leader normally improves his differentiation qualities but without abandoning its pure GCA. This question of being both cost leader and differentiator has provoked continuous debates and arguments.

Consider the various advantages, not just profitability, of having a “pure” GCA, cost leader or differentiator, this study suggests a two-dimensional GCA paradigm, pairing it with the other important component of the firm’s strategy definition, namely the markets in which the industry competes

This proposition might explain why some scholars still advocate the benefits of being both cost leaders and differentiators, and suggest that the firm should adopt a pure GCA in any defined market.

The research starts with a brief literature review, following with a description of the importance and impact of GCA on the various facets of the organization that will support the argument of the importance of having a clear and non-contradictory definition of either cost leader or differentiator. Next is the proposition of a two-dimensional paradigm of GCA and its benefit to the firms’ business strategy in general and to the definition of the GCA of the marketing strategy in particular. The viability of the two-dimensional paradigm will be illustrated by four case studies: Ford and General Motors in the US car industry, IKEA the Swedish international home products retailer and the Australian Yellow-Tail wines in the American market. The conclusions present a model that suggests an explanation of how pure GCA leads to better economic performance.

## **Literature review**

Since Porter published his concept of GCA the academic world has tried extensively to substantiate or refute his arguments. On the affirmation side are Dess and Davis (1982, 1984), Karnani (1984), Nayyar (1993), and Thornhill and White (2007). The first reservation as to the benefits of a pure GCA was published by Phillips et al. (1983) and was followed by Miller and Friesen (1986a,b), Murray (1988), Hill (1988), Miller (1992), Reitsperger et al. (1993), Helms et al. (1997), and Parnell (2000).

In both groups there are conceptual and empirical articles based on different proxies for GCA, all of them from the perspective of the firms without any reference to customers' perceptions of the firm's GCA.

Appendix 1 presents a summary of the literature review.

### **The importance of a pure definition of the firm's GCA**

There are five main reasons for advocating a pure definition of the firm's GCA: to send a focused communication to the customers and target the marketing strategy, to set priorities for investments in tangible assets and R&D activities, to set a focus for company culture to avoid cognitive dissonance, to establish directions for coordinating management decisions, and to reach better economic performance.

#### **Sending a focused communication to the customers and targeting the marketing strategy**

Narver and Slater (1990) find in their empirical research that "market orientation is an important determinant of profitability." Similar arguments are presented by others (e.g. Varadarajan and Jayachandran 1999, Srivastava et al. 2001).

Marketing strategy is demonstrated in the 4Ps namely price, place, promotion and products.

**Price:** As the relevant definition of GCA should be customer oriented, this study adopts David's (1997) definitions as follows:

The pricing of the product should attract those customers that fit the firm's strategy – cost leader or differentiator. Low price, not necessarily the lowest, should be adopted by the cost leader and higher price for the differentiator. "A GM Cadillac will always be priced higher than a Ford Lincoln with the same accessories" (Sloan 1963)

**Place:** The distribution channel indicates to the customer if the product is a cost leader or a differentiator. When Timex entered the American market in 1950 as a cost leader producer of wristwatches, they started to distribute them in drugstores, hardware stores, and even tobacco stands. They bypassed the traditional distribution channels of wristwatches via jewellery and speciality shops in order to go through distributors with a lower margin and to send the message of affordable watches to customers.

**Promotion:** The same logic governing the choice of distribution channels guides the choice of promotion channels and messages. American Express and Mercedes-Benz, both differentiated products, advertise in the New Yorker (22.9.08), which is considered a high class and differentiated publication. On the other hand the University of Phoenix advertises its low level academic education program "continuing teachers' education courses" in the New York Post (21.9.08).

**Products:** There are no significant differences in the product lines offered by cost leaders and differentiators. Ford US, a cost leader (Nevins and Hill 1963a,b,c), offers six models compared with six models offered by GM, which is a differentiator (Sloan 1963).

#### **Setting priorities for investments in tangible assets and R&D activities**

It is Porter (1980) who made the dichotomy between the nature of investments in a firm that is a cost leader and that of a firm that is a differentiator. While the first should invest in product design for ease of manufacturing and process engineering the latter should invest in basic research and product engineering creative flair. Porter (1985) elaborates on this subject and argues that although all firms should strive to reduce cost and increase differentiation, the differentiator will reach a point where further cost reduction requires a sacrifice in differentiation and the cost leader the point where increased differentiation is costly, and it is here that adherence to its definitive GCA of differentiator or cost leadership will direct the firm's decision. The same argument pertains in any other investment decisions.

Zahra and Covin (1993) find a significant correlation between firm strategy and technology investments when the firm strategy was defined on one hand as "cost leader" and on the other hand on the continuum of "commodity to specialty products".

#### **Setting a focus for company culture to avoid cognitive dissonance**

Porter (1980) argues that different generic strategies may require different styles of leadership and can translate into very different company culture and atmosphere. The most explicit direct connection between strategy and company culture is presented by Kono (1990). Out of his seven elements of company culture that are strategy inclined, "idea presentation" is the element most affected by a different GCA. While a cost leader expects mostly new ideas that are internally oriented to reduce cost and enhance productivity, the differentiator firm is looking for new ideas externally oriented to increase customer value and enhance the differentiation merits of its products. Trying to be both may send confusing messages to employees as to the dominant concept of the firm. To avoid any misunderstanding IKEA (2007) explicitly indicates "cost consciousness" as one of its values.

#### **Establishing directions for the coordination of the firm's managers' decisions**

White (1986) presents a table covering important factors affecting managers' decisions in the firm, with their application in firms that are cost leaders or differentiators (see Table 1). Allen and Helms (2006) make similar presentations.

	<i>Cost leadership</i>	<i>Differentiator</i>
<i>Factor inputs</i>	<i>Low-cost raw materials</i> <i>Labor productivity</i> <i>Capital to sustain necessary investments</i>	<i>Product technology</i> <i>Creativity/innovation</i>
<i>Processing</i>	<i>Efficient scale facilities</i> <i>Process engineering skills</i> <i>Minimal wastage/high yields</i> <i>Employee productivity</i> <i>logistics</i>	<i>Flexibility</i> <i>Quality</i>
<i>Product or service</i>	<i>Easily manufactured</i> <i>Capital intensity</i>	<i>Technical service</i> <i>Styling</i> <i>Uniqueness</i> <i>Options</i> <i>Quality/reliability</i> <i>Image</i> <i>Product variations</i>
<i>Allied services</i>		<i>Availability/delivery</i> <i>Financing</i> <i>Guarantees</i> <i>New ideas for improved use</i> <i>Market research</i>
<i>Distribution</i>	<i>Efficient scale customers</i> <i>Simple product line</i> <i>Price discrimination</i>	<i>Credit</i> <i>Sales support</i> <i>Post-purchase service</i>
<i>Source: Adapted from Porter (1980), Levitt (1980), Hambrick (1983), and Hall (1980).</i>		

Table 1: Important operation variables by generic strategy (White, 1986)

The manufacturing director aims at producing long runs to lower cost while the marketing director asks for large variety and flexible production schedules to give better choice of products and shorten delivery time. A cost leader firm will favour the production attitude while a differentiator firm will favour that of the marketing department. Having a well-defined GCA will make most arguments on this subject unnecessarily. Dess and Davis (1984) find in their research that managers in firms which are differentiators considered new product development (R&D), customer service (marketing), product quality control (operation) and brand identity (advertising) as highly important, while managers in cost leader firms pointed to operating efficiency (R&D and operation), competitive pricing (marketing) and procurement of raw materials (procurement) as the factors highest in importance. Without a clear definition of the firm's GCA managers' decisions may not be coordinated.

### Reaching better economic performance

The finding of a recent study with the largest sample ever used in such research claims the superior performance of firms with pure GCA (Thornhill and White 2007). The authors analyze a sample of 2351 firms from the manufacturing, construction and retail industries and found significantly better performance for firms with pure GCA compared with those having hybrid GCA. They concluded that strategic purity was a meaningful predictor of operating margin.

There is no argument that differentiators should continually strive to reduce costs, just as cost leaders should try to enhance their differentiation but without jeopardizing the priorities of their strategic GCA. (Miller and Friesen 1986b)

### Proposition

Reviewing all aspects of the advantages of having a pure GCA several questions arise:

How come there are still so many arguments favouring a hybrid GCA (e.g., Phillips et al. 1983, Murray 1988, Hill 1988, Reitsperger et al. 1993, Helms et al. 1997)?

It is the contention of this research that those advocating pure GCA as well as those supporting hybrid GCA, view GCA as a single dimension, and that by adding a second important dimension, namely the firm's market, the firm should adopt a pure GCA either cost leadership or a differentiation in order to earn the full benefits of its GCA. Thus the proposition of this research is as follows:

**H1:** The GCA is two-dimensional and pairs with another component of the firm's strategy definition, namely its markets, and as a result a firm should be either a cost leader or a differentiator but not both in the same market.

To substantiate the proposition four industry case studies are presented of firms using this concept explicitly or firms that are viewed as both cost leaders and differentiators, but are actually only one of the two when the definition of the market is considered.

The definitions of GCA used for the case studies are customer oriented as follows (David 1997):

"Cost leadership emphasizes producing standardized products at very low per-unit cost for customers who are price sensitive. Differentiation is a strategy aimed at producing products and services considered unique industry-wide and directed at customers who are relatively price insensitive."

The car industry in the USA is a very good source for demonstrating my argument as the strategic decisions of the two oldest firms, namely General Motors and Ford, have been extensively documented from testimonials by those that took part in the debates and decisions - in *My Years with General Motors* by Alfred Sloan (1963), and the three volumes of research on Ford by Allan Nevins and Frank Hill (1963a,b,c), which were written under the supervision of Columbia University.

### **The General Motor story (Sloan 1963)**

In 1921 the Executive Special Committee of GM (General Motors) defined six price range market segments in which GM should compete:

\$450 - \$600, \$601 - \$900, \$901 - \$1200, \$1201 - \$ 1700, \$1701 - \$2500, \$2501 - \$3500.

The strategy for competing in each segment was set as follows: "GM should place its cars at the top of each price range and make them of such a quality that they would attract sales from below that price, selling to those customers who might be willing to pay a little more for the additional quality". This is exactly what was defined by Porter 59 years later, in 1980, as "differentiation competitive advantage". But in addition the Committee mentioned that any of GM cars in each segment should also attract customers from the higher price segment who would see the price advantage in a car close to the quality of the higher-priced competition – which is Porter's "cost leadership advantage". Thus the same product which is a differentiator in its designated segment might be perceived by some customers as cost leader in another segment of the same market (see Figure 1).

The strategy of dividing the car market into a number of segments segregated by price range prevailed not only at GM but was adopted years later by most full range car manufacturers.

### **The Ford story (Nevins and Hill 1963a,b,c)**

Ford's strategy as a cost leader was defined in 1908 with the introduction of the Model T. Their achievements in productivity as a result of focused engineering and production techniques together with limited product variety ("my customers can have any colour they want as long as it is black") made them the sole competitor in the low-price market.

But contrary to GM, Ford was not consistent in its overall corporate strategy. In 1921 Ford acquired the Lincoln brand and production facilities to enable it to offer "a cheap, reliable car for the masses and a luxury car for the few". The result was that Ford competed at the same time as a "cost leader" in one segment of the car market and as a "differentiator" in another segment with both strategies in the same market.

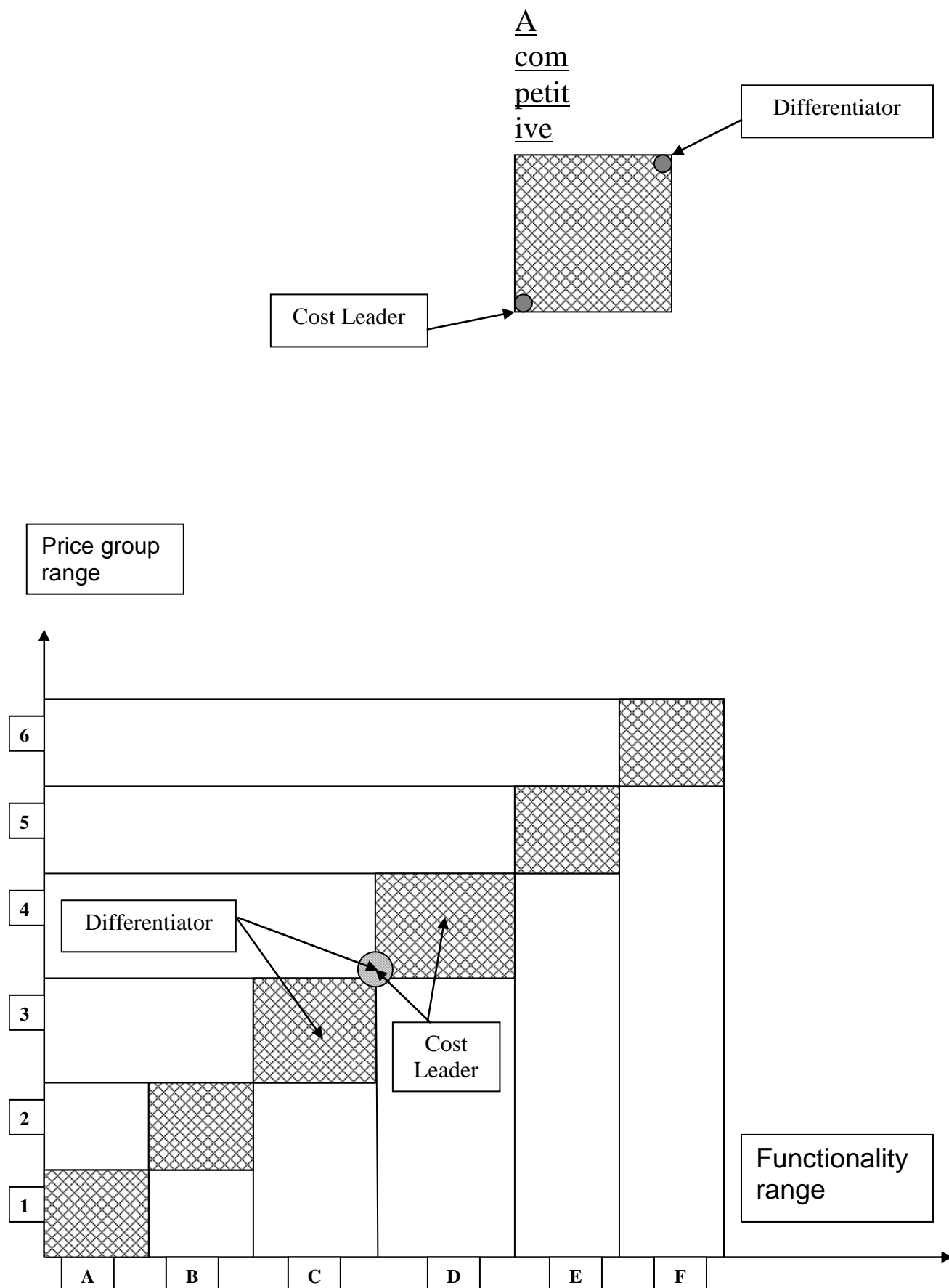
There is another remarkable example of diversion from corporate cost leadership strategy years later in 1960 when Lee Iacocca decided to develop a new "differentiated" car for the new young emerging market. His formulation of the specifications for this car was as follows:

A car for the young emerging market - fancy design, high performance, low price, (up to \$2,500 with accessories), 4 passengers

This car was introduced to the compact car segment in 1964 as the Mustang (Iacocca 1984). The Mustang dealt Falcon, the very successful cost leader compact car of Ford, a blow from which they would never recover (the Falcon had to be abandoned in 1970 and was replaced by the Ford Maverick).

This is an example of how the same car manufacturer tried to compete in the same market segment of compact cars as a “cost leader” (the Falcon) and as a “differentiator” (the Mustang) with all the negative consequences emanating from the inconsistent message the firm sent to its employees, managers, suppliers and customers. The Mustang was later moved as a cost leader to the newly created “sports car-like sedans” market, consistent with Ford's cost leadership strategy, and cleared the way for a new Ford “cost leader” car in the compact car market.

Although the American car industry with its multiple market segments definition along price ranges exemplifies the two-dimensional concept of GCA, the same effect can be observed in smaller single SBU (strategic business unit) firms.

**Figure 1: GM cars' Competitive Zones A1 to F6**



**IKEA (IKEA 2007).**

Some argue that IKEA is a good example of being both a cost leader and a differentiator by distributing low-priced, well-designed furniture and household goods. Let consider a two-dimensional approach to the IKEA case:

	<i>Alternative 1</i>	<i>Alternative 2</i>
<i>Market definition</i>	<i>Designed furniture and household goods</i>	<i>Low-price furniture and household goods</i>
<i>Generic Competitive Advantage</i>	<i>Cost leader</i>	
		<i>Differentiator By better design</i>

*Figure 2: IKEA's generic competitive advantage*

The proposition of this research is that IKEA is a “cost leader in the designed furniture and household goods” market, namely the first choice in developed countries and “a differentiator in the low-price furniture and household goods” market in the less developed countries but is not trying to be both in the same market. To substantiate this argument let refer to IKEA’s documents: IKEA started its activities in the West European market as a “cost leader in the designed furniture and household goods” as follows:

1. IKEA vision: "The IKEA vision is to create a better everyday life for many people. We make this possible by offering a wide range of well-designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them."

2. Quoting Josephine Rydberg-Dumont, president of IKEA of Sweden: “This cost obsession fuses with the design culture. Designing beautiful-but-expensive products is easy; designing beautiful products that are inexpensive and functional is a huge challenge. No design, no matter how inspired, finds its way into the showroom if it cannot be made affordable.”

3. The cost consciousness values of IKEA: “This value goes hand in hand with our business idea. It is impossible to have low prices, good quality and good profitability if you don’t have low costs. So cost consciousness is part of everything we do, from constantly finding better ways to produce home furnishings, to purchasing wisely and travelling cost effectively.”

When IKEA entered less developed countries like the Czech Republic and the Republic of China, their products were not considered low price as a result of the different purchasing power in those countries compared to the more developed countries, but it definitely introduced a new type of furniture style reflecting the western culture. As a result IKEA entered those markets with a different strategy as a “differentiator in low-price furniture”. (Burt et al. 2010)

Again it is a case of a firm acting in one market as a cost leader and in another geographically segregated market as a differentiator but not as both in the same market.

### **Australian Yellow-Tail wines**

The story of Yellow-Tail wines is another case where there are claims that the firm is both a cost leader and a differentiator at the same time in the American wine market (Kim and Mauborgne 2005).

The wine market in USA is divided into four segments (by retail price per 750 ml) as follows (Cholette and Castaldi 2004):

Jug Wines	Up to \$3
Popular-premium	\$3-\$7
Mid-premium	\$7-\$10
Super-premium	\$10-\$14

Although there are claims that Yellow-Tail wine is a cost leader and differentiator at the same time the reality is that at the price of \$6.99 (Grossman 2006) they might be the differentiators in the “popular-premium” segment of the market in the price range of \$3 to \$7, or cost leaders in the “mid-premium” segment in the price range of \$7 to \$10. The answer may be found in the marketing strategy of Yellow-Tail. The first indication of this strategy is from testimonials of the executives of Casella wines, who positioned their products in the \$5 to \$10 retail price segment in the USA (Steane and Dufour 2006). The second and more important indication is the joint venture Casella formed with a distributor in the USA – W.J. Deutch & Sons. This wine distributor was founded by Chairman Bill Deutch in 1981 with a vision to represent family-owned producers around the world so their distribution channels would cover retailers selling fine wines. The diverse portfolio of W.J. Deutch & Sons includes internationally renowned, award-winning brands that are recognized among the leading wines in their categories (Deutch 2008). These two sources point to Yellow-Tail wines being cost leaders in the “mid-premium” wine segment although some customers in the “popular-premium” segment (\$3 to \$7) might buy it as a “differentiated” product in this segment.

### **Discussion**

GCA should go hand by hand with marketing strategy. Firms may act as cost leaders in one market and differentiator in another segregated market, but how do they cope with the negative implications on aspects such as establishing directions for coordinated decisions in management, setting priorities for investments in tangible assets, R&D activities and market development, setting a focus for company culture to avoid cognitive dissonance.

Some scholars (e.g. Faulkner and Bowman 1995) disregard the importance of pure GCA and suggest moving from cost leadership to diffraction, or vice versa, as a competitive strategy option disregarding none marketing implications of such a move.

Looking at the case studies presented there are two different answers for acting in different GCA in different markets.

### **Different customer perception**

GM represents this case. Although GM definitely chose to be a differentiator in the various market segments, some customers perceived their products as cost leaders in the higher segment, that is, the highest level Buick is perceived as competing with the Ford Lincoln, which is the cost leader in the market segment where Cadillac is the differentiator. As a result in GM all managers remain fully coordinated as a differentiator firm.

The same argument is valid for Yellow-Tail wines. The strategy of Casella wines is to be a cost leader in their market segment and this strategy guided their activities, although some customers perceived the Yellow-Tail wines as a differentiator in a lower segment. So it is the same product – a cost leader in one market segment and a differentiator in another, but not both in the same segment, while the firm is totally a cost leader.

Another example of different customer perception may be drawn from the case of Aer Lingus. When the management of this airline decided to change its strategy and move away from the highly competitive “high service/high price” market segment to the “low-cost/low-price” market they positioned themselves as a differentiator in this low price market segment. They offer their passengers extra carry-on luggage, assigned seating, service flexibility, problem responsiveness and reliability which were not common in the low-price airlines. As a differentiator Aer Lingus prices are higher than those of the low-price airlines but much lower than that of the high service airlines (Harrington, Lawton and Rajwani 2005). Aer Lingus management also anticipates to be perceived as a cost leader by passengers of the “high service airlines” market segment.

### **Same products in segregated global markets**

Some firms that are cost leaders may go global and find that their products cannot be cost leaders in markets that have much lower price standards. In such countries the local marketing operation might position the firm’s products as differentiated products, but this would not change the focus of the firm as a cost leader. IKEA is an example of such a firm. Their products are cost leaders in more developed western markets but are differentiators in some of the emerging eastern European and far eastern markets. The firm in all its functions is fully dedicated to cost leadership and only local marketing organization act as differentiators.

One facet of the claims for none pure GCA might be found in the nature of some researches. Many of the empirical studies that advocate a non-pure GCA have defined the

GCA of firms by inputs or resources – namely expenditure on R&D, production, marketing etc, but not on the positioning of the firms in the market. There is no doubt that differentiated firms invest in cost reduction and manufacturing R&D and firms that are cost leaders do introduce new products and spend money on advertising. Quoting Miller and Friesen (1986b):

“It appears also that elements of strategy can be orchestrated over time so that, for example, successful differentiation might lead to market share and volume gain that in turn bring opportunities for cost leadership. Alternatively, cost leadership can create handsome gross margins that free up resources for share-building differentiation measures – at least in the consumer durable industries we have studied.”

Hill (1988) argues that successful differentiation will result in lower costs and cost leaders reaching the bottom of cost reduction might be forced to invest in differentiation, but in neither case do these firms become both differentiators and cost leaders.

None of the researchers who advocated the possibility being both cost leaders and differentiators addressed the question of priority – when the firms have limited resources how are they going to spend their marginal \$ in enhancing their differentiation or lowering their costs? Or if the firm can lower its costs by lowering its differentiation or increase its costs to improve its differentiation how will it act? The answer to these questions will reveal the real pure strategic GCA of the firm.

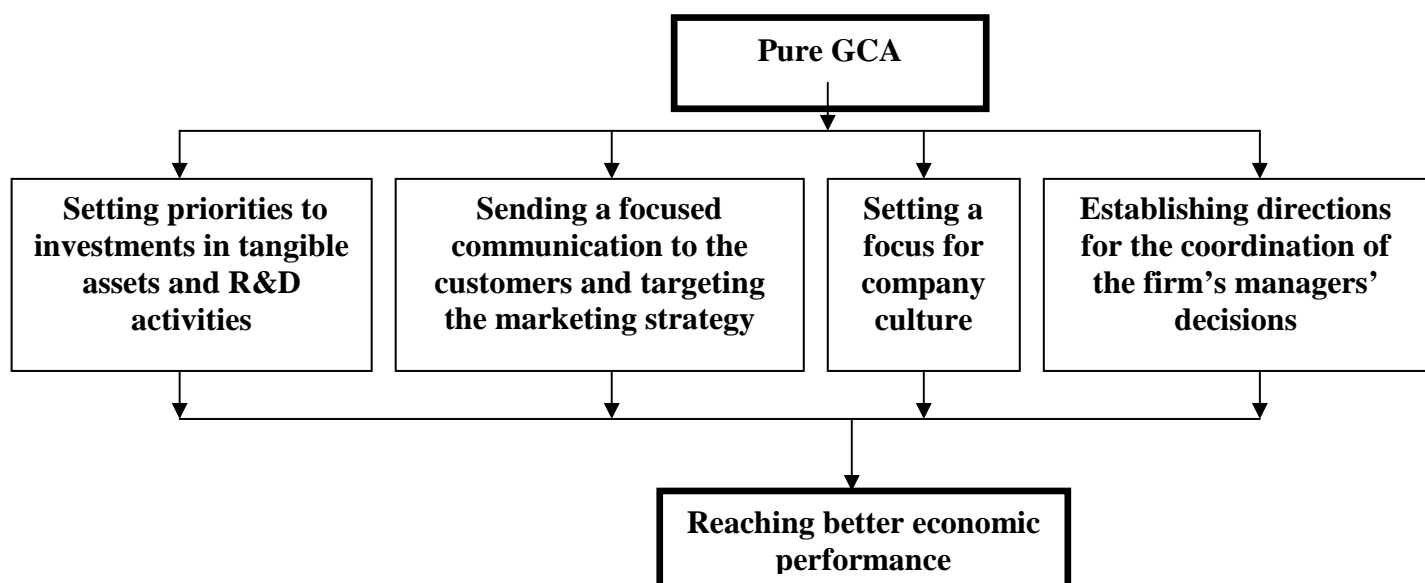


Figure 3: GCA purity and the firm's performance

But at the end of the day how is it possible that some empirical studies do support the benefit of a pure CGA and others refute it. This question was addressed by Thornhill and White (2007) who attributed the disparity to the shortcomings of those studies that did not support the advantage of pure GCA, namely the design of the studies, the construct operationalized, and hypotheses framed and tested as well as the sample selection and size. For example, some studies took various inputs as proxies for GCA, disregarding strategic intent (Miller and Friesen 1986a,b 1993, Helms et al. 1997), while others used a very limited sample in a single industry (Dess and Davis 1984, Reisperger et al. 1993, Helms et al. 1997). The problem might also have been that a hybrid GCA was presented in the research, although in fact it was a pure GCA in a defined market.

Thornhill and White (2007) define “purity” as the dominant GCA and, accepting that cost leaders do marginally invest in product improvement and differentiators invest in cost reduction; conclude that pure GCA results in better performance. But there is no answer in this research or in any of the other studies as to what in the firms’ attributes enables this better performance. Based on the exposition of the importance of a pure definition of the firm’s GCA following the literature review of this article, it is suggested that the interdependence of GCA purity and the firm’s performance could be explained as presented in Figure 3.

Although Figure 3 demonstrates the connection between strategic purity and performance, the intensity of each component might be specific to each and every firm exclusively.

### **Suggestions for future research**

This conceptual article may lead to further research in a number of subjects:

1. The research on marketing strategy and GCA in general is so far very limited. More empirical research is needed on pure GCA and marketing strategy.
2. The model suggested for the interdependence of GCA purity and performance as presented in Figure 3 needs empirical research to substantiate it.
3. The two-dimensional approach to GCA suggests that the relevant competitive arena of the firm which is a “cost leader” is the other cost leaders in the target market segment as well as the “differentiators” in a lower adjacent segment; by the same token, the competitive arena of a “differentiator” is other differentiators in its target segment as well as the cost leaders in a higher adjacent market (see Figure 1). Again this proposition needs empirical support.

### **The contribution to managers**

There is an advantage in adopting a strategy of pure generic competitive advantage, either as “cost leader” or “differentiator”, but this decision should be made together with the marketing strategy to the customers’ needs the firm aims to satisfy.

## Conclusions

There are many advantages for firms adopting a pure definition of their generic competitive advantage. Some of the claims of a firm being simultaneously a cost leader and a differentiator arise from the conventional one-dimensional view of the generic competitive advantage of the firm. Looking more closely and adopting the two-dimensional concept, it will be discovered that some firms are either cost leaders or differentiators in any single market but not both in the same market without getting all the benefit of having a pure GCA, and others which do try to be both finding themselves “stuck in the middle”.

## Biography

After 35 years in active management, consulting and top management positions in business firms, I joined the Recanaty Graduate School of Business Administration as a Junior Faculty member and PhD student in Business Strategy. My research interest and publications for academics and practitioners, of several articles and one book, focuses on all aspects of the theory and application of Business Strategy.

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**Appendix1: Summary of the literature review**

Researchers	Supp. Pure or Hybrid	Year	Conceptual Empirical	Proxies for GCA	Sample		Conclusions
					Indust.	Size	
Karnani	Pure	1984	Conceptual	Price and marketing expenditure in a theoretical game theory model of oligopolistic competition.	No	No	Superior CL OR Dif. leads to a larger market share which in turns leads to higher profitability
Dess and Davis	Pure	1984	Empirical	Survey. Questionnaires on “strategic orientation” developed by managers and academicians.	Paints	28	Firms which are identified with at least one generic strategy outperform those that are “stuck in the middle.”
Nayyar	Pure	1993	Empirical	Survey product/brand managers of large multiproduct U.S. firm	Consumer product market	2000 products	Cost-leadership and differentiation competitive strategies are mutually exclusive at the product level
Thornhill and White	Pure	2007	Empirical	Survey with specific answers on components of “product leadership” and “operating excellence”	4 sectors	2351	Significant relationship between strategic purity and performance.
Miller and Friesen	Pure & Hybrid	1986 a,b	Empirical	29 variables out of PIMS 92 variables for clustering	Consumer Durable	102	Profit out of pure GCA may strengthen the other GCA
Phillips et al.	Hybrid	1983	Empirical	Product quality and direct cost	PIMS	600	Higher quality associated with higher ROI but not with higher costs
Murray	Hybrid	1988	Conceptual	Contingency view of GCA. Preconditions for cost leadership (industry structure) and for differentiation (customer tastes)	No	No	Generic strategies are not mutually exclusive
Hill	Hybrid	1988	Conceptual	Contingency view of GCA. Successful	No	No	A combination of differentiation and low cost may

				<i>differentiation will result in lower cost. Reaching the bottom of cost leadership might force the firm to invest in differentiation.</i>			<i>be necessary for firms to establish a sustainable competitive advantage. Starting with one and following with the other.</i>
<i>Miller</i>	<i>Hybrid</i>	<i>1992</i>	<i>Conceptual</i>	<i>Dangers of being only one of the two GCA</i>	<i>No</i>	<i>No</i>	<i>A mixed strategy offers several advantages, including avoiding the dangers of specialization, and allowing organizations to profit from multiple abilities.</i>
<i>Reitsperger et al.</i>	<i>Hybrid Manu- facturing</i>	<i>1993</i>	<i>Empirical</i>	<i>Survey. Questionnaires to managers in Japanese electronic firms. Linking manufacturing performance to cost control and product quality</i>	<i>1</i>	<i>50</i>	<i>Superior manufacturing performance can be positively related to integration of cost control and product quality.</i>
<i>Helms et al.</i>	<i>Hybrid</i>	<i>1997</i>	<i>Conceptual &amp; Empirical</i>	<i>Product R&amp;D expenses, process R&amp;D expenses, manufacturing expenses, relative direct costs, capacity utilization, advertising expenditures and pricing</i>	<i>Adhesive</i>	<i>70</i>	<i>Combination of cost leadership &amp; differentiation brings higher ROI than GCA purity.</i>
<i>Parnell</i>	<i>Hybrid</i>	<i>2000</i>	<i>Empirical</i>	<i>Survey by personal questionnaires on generic and other strategies.</i>		<i>231</i>	<i>Some combination strategies at the competitive level can lead to superior performance.</i>

# INTERNATIONAL EXPERIENCE OF THE MANAGER AND THE COMMITMENT TO ENTRY: EMPIRICAL COMPARATIVE CASE STUDY ON THE ROLE OF MANAGERIAL EXPERIENCE IN THE FOREIGN ENTRANCE GO/NO-GO DECISION

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## **Abstract**

The purpose of this paper is to compare how and why managers decide on foreign entrance and assess to what extent managerial characteristics relate to this decision. Comparative case studies are ideally suited to learn how and why managers arrive at decisions to cancel, postpone, continue or alter foreign entrance plans. A total of 26 Dutch managers are studied while making entrance decisions for 54 new business activities in or with China. Data is gathered on the decision maker characteristics, the entry strategy, and the entrance Go/No-Go decision. The outcomes of the Go/No-Go decision are reviewed against the experience of the decision making manager.

Findings confirm how growing international business experience of the manager relates to higher rates of commitment in the Go/No-Go decision, supporting the Internationalization process view empirically for managerial experience (Johanson, 1977).

This study is unique in that it not only studies the managerial experience in relation to foreign entry decisions, but is able to report on the foreign entrance Go/No-Go decision. The study captures and compared international business activities that are cancelled, postponed, continued as planned or continued in altered format.

**Keywords:** manager, experience, foreign entrance, success, cases, Go/No-Go

## **Introduction**

Most International Business (IB) studies are conducted at the country or firm level. Studies of managers within the firm who actually make entrance choices are limited so far (Coviello, 2003). IB research neglected, if not rejected, the scope of the human element in international decision making (Sullivan, P. J. Buckley, 2005). The role of managers in the internationalization process is underdeveloped as a research area, especially with regard to larger firms (Reid, 1981; Collinson, 2005; Hutzschenreuter, 2007).

In strategy processes for complex decisions, the amount of information to be processed is enormous and data only limited available in practice. Given the high complexity of the decisions and the uncertainty of the environment, in reality managers are forced to make

decisions on the way forward without having access to a complete analysis (Branzei, 2004). Given the limited financial and human resources available, entry decisions are often based on know-how, skills and business competences of the decision maker (Knight, 2009).

A few studies reveal how individual experience impacts managerial choices on expansion (Buckley, 2007; Hutzschenreuter, 2007). Scholars did find that managerial perception of host country conditions for business do not necessarily reflect the macro-level measures on host countries conditions (Oortwijn, 2006; Chapman, 2008; Dong, 2009; Dow, 2009; Jansson, 2009). Individual managers are influenced by contextual factors and by personal and group cognitive processes in an interactive, iterative decision process (Yiu, 2002; Collinson, 2005).

### **Contribution**

This paper adds a new angle to research on internationalization by addressing the research question: *How does the entrance decision relate to a manager's international experience?* The research project follows international business plans for China before final decisions on entrance are made, analyzing the outcomes of the Go/No-Go decision.

An important limitation in existing internationalization research is that data is gathered post entrance. Due to the origin of the data in previous work, the firms analyzed are those who decide on foreign entrance and are still present. The longitudinal approach allows for unique insight in how entry strategy plans evolve, or, do not evolve. The study's unique contribution lies partly in the fact that some of the case companies decide not to continue entrance into China while others continue, alter or postpone plans. To the best of my knowledge, so far there are no studies that report on the managerial characteristics and international business experience in relation to the Go/No-Go decision for entrance in foreign countries.

### **Literature**

In unknown business environments organizations and individual managers need to interpret and make sense of large amounts of complex data (Daft, 1984). To assess new business problems or environments, managers follow implicit theories distilled from prior experience, as the information processing capabilities of managers is by definition limited (Hohenthal, 2003; Branzei, 2004). The assessment of managers is what matters most, because they decide on entrance and the entry strategy (Dow, 2006).

### **Managerial sense making**

Managers interpret and assess the decision situation partly unconsciously and move forward without understanding the full complexity of the choices they are about to take, as time and resources are limited. They continuously attempt to interpret and explain sets of clues from their environment, e.g. sense making (Weick, 1993). Sense making is often defined as "efforts to create order and make retrospective sense of what occurs" (Weick, 1993). For managers, sense making activities such as environmental scanning and issue interpretation

are key tasks that significantly influence organizational decisions and strategic change (Maitlis, 2005).

Cognitive scientists suggest that how individuals make sense of their environment is tied to their cognitive frameworks or mental models (Bogner, 2000). These frameworks are developed over time through experience, vicarious learning, and direct communication with others. The manager's (international) work experience thus influences the firm's present entrance choices and global strategic posture (Carpenter, 2001; Collinson, 2005). Especially in complex decision making situations the added value of experiential knowledge above formalized objective knowledge becomes obvious. It is experiential knowledge that allows for direct knowing, immediate understanding, learning without conscious use of reasoning, or making a choice without formal analysis (Hadley, 2003).

Another way through which experience shapes assessment, is through the organizational practices that develop in time. Organizational practices provide conditions of decision procedures, share certain information, raise expectations with regard to punishment or reward and offer specific resources (Jarzabkowski, 2008). Managers thus interpret situations through individual cognitive processes, within a certain working context, based on information provided by organizational information processes that reflect past needs.

### **International business experience**

According to the Internationalization theory as developed in Uppsala, the level of commitment to foreign markets increases with growing knowledge that comes with experiential learning (Johanson, 1977). A lack of experience is related not only to the cost of developing proper operations, but it also limits the options considered by decision makers (Hutzschenreuter, 2007).

A major weakness of the Internationalization process theory, is that no real consideration is given to the role of the manager in this process (Reid, 1981; Collinson, 2005). Johanson and Vahlne (1977) already mentioned their model disregards the decision maker and the specific properties of the various decision situations. They suggested further research to include these aspects, but this request is largely ignored, despite the fact that in reality entry choices are made by managers (Hutzschenreuter, 2007).

Another limitation of the Uppsala model is that the model stresses the importance of experiential knowledge rather than formal knowledge. Central is the idea of knowledge accumulation and feedback within the internationalization decision making process (Collinson, 2005). Recent work builds on the concept of knowledge development, by studying external relationships of the firm as source for knowledge development and stimulus for internationalization of the firm (Johanson, 1992; Hadjikhani, 2002).

The learning perspective expands the Internationalization process theory in that it reviews other sources of knowledge besides the experiential knowledge obtained in overseas

activities. While experiential knowledge is important for international business choices, firms can also learn from the lessons of others (Hadley, 2003). In addition, personal experience of decision makers plays a role in foreign entry decisions, through education and previous work experience (Collinson, 2005). The general insight that organizations learn from individuals and individuals from organizations (March, 1991) has been ignored in the traditional internationalization model.

### **Host region experience**

Experience in a host country or in neighbouring countries provides managers insight in the new business environment reducing uncertainty of entrance. This enables firms to make better judgements for entry and manage operations abroad with more success (Barkema, 1996). Business experience in the host region has a positive effect on entry commitment. Firms with previous experience in a country are also more successful in terms of performance of new activities in the same host country (Luo, 1999).

Network ties also increase foreign firms' expansion and profitability of activities abroad (Johanson, N. Hood, Vahlne, J.-E., 1988; Li, 2009). Firms are able to acquire international knowledge from relationships (Chetty, 1998). Though internationalization research so far did not pay much attention to the impact of local contacts for entry mode choice (Hadley, 2003), the development and utility of a foreign network creates a learning process that supports internationalization (Welch, 1996).

Firms are embedded in wider business networks that extend far beyond the boundaries of the firm (Blankenburg, 1992). An existing network in a host country facilitates business activities, especially in the decision making phase, the start-up phase and in case of any dispute occurring later on (Jensen, 2003; Chen, 2009). Firms with a management team with a larger international network, find alliances and JV partners more easily (Eisenhardt, 1996). A local network thus has varying effects on entry success.

## **Method**

The research conducted contains analysis of 54 plans from Dutch firms for business activities in/with China. These international expansion plans all concern new activities in China. Data is gathered on firm characteristics, manager characteristics, the Go/No-Go decision and the strategy process leading to this decision.

### **Research approach**

During 2006 and 2007, a number of 26 managers in 25 Dutch firms are studied while they consider to conduct business in or with China. This results in a comparative case study on a total of 54 entrance plans for business activities in or with China. Data is gathered by conducting several short telephonic interviews with the main decision maker during the time period, followed by an in-depth semi-structured interview of several hours conducted after choices for entrance are made by the firm. Before any interviews take place, documentation

on the company background is collected through desk research, e.g. internet search, company website, and if available annual report.

The firms are a balanced set of case companies and a representative sample (Eisenhardt, 1989; Bell, 2004). In this paper entry choices are compared across a set of companies with various firm size, international business experience, industry sectors and foreign entry motivations. Existing work on internationalization mostly concerns larger firms, though some studies focus on small and/or startup firms (Dess, 2003; Oviatt, 2005; Zahra, 2005). Hardly any work covers the full range of firm size and age (Osborn, 1990; Dess, 2003; Keupp, 2009; Knight, 2009). As a result, findings are grounded in varied empirical evidence and likely applicable to a broader population of firms (Eisenhardt, 2007).

#### Data gathered on managerial characteristics

The managerial characteristics studied include variables on maturity in the job position, personal experience abroad and professional international business experience.

#### Definition of ratings on characteristics managers

	<i>Manager characteristics and experience</i>	<i>Definitions of ratings</i>
	<i>Manager maturity in present role</i>	
	<i>Age of the manager</i>	<i>The ranges are 25-35 years (-); 36-45 years; 46-55 years; and &gt;55 years (+)</i>
	<i>Years within the firm</i>	<i>The ranges are &lt;5 years (-); 5-10 years (0); &gt;10 years (+)</i>
	<i>Years within the job position</i>	<i>The ranges are &lt;5 years (-); 5-10 years (0); &gt;10 years (+)</i>
	<i>Personal experience international</i>	
	<i>International personal experience</i>	<i>Limited travel abroad (-); Extensive travel abroad (0); Lived abroad (+)</i>
	<i>Social ties to China</i>	<i>No significant ties (-); Some business contacts (0); Strong social ties (+)</i>
	<i>International business experience</i>	
	<i>International business experience in general</i>	<i>Limited experience (-); Trade experience (0); Worked/Invested abroad (+)</i>
	<i>International business experience in China</i>	<i>Visited &lt;5 times (-); Visited often/trade experience (0); Worked/Invested (+)</i>

+ High rating, e.g. high level of experience; 0 Medium rating, e.g. medium level of experience; - Low rating, e.g. limited to no experience. Note: The details on ratings per subject are presented in paragraph 2 of this paper

Table 3.1: Decision making manager characteristics

The analysis reveals how the manager characteristics relate to the outcome of the entrance Go/No-Go decision.

## Results

Following firms during the entry strategy process creates a unique setting for gathering insights on the continuation rate of international business plans, even before entrance. During field research several plans are canceled, postponed or altered. This paragraph shows how these Go/No-Go decisions for entrance relate to the business experience and characteristics of the manager. It reveals how managers who cancel or postpone plans, have less international business experience than those who alter or continue plans.

Of the 26 managers deciding on 54 investment plans, a total of four managers cancel eight plans. These companies 4 managers decide to cancel the plans for China, without considering adjustments or perhaps a transfer to another country. Six other managers put an investment plan on hold and decide (for now) to not continue an active search for opportunities with regard to these six plans. Four managers altered seven plans, to continue but with a different entry mode or within another host country. Most investment plans result in a positive Go/No-Go decision, with no or only small changes made by the 18 managers considering these 33 plans.

### Canceled plans and manager characteristics

Eight business plans are canceled by four managers. The plans that are canceled are all first attempts to conduct business abroad. The firms are small companies with a unique local relationship in China on which an investment plan is build. Despite that all managers have been positive about the business opportunity pursued in China initially, the opportunity turns out to be a disappointment.



**Characteristics managers who cancel plans**

	<i>Manager characteristics and experience</i>	<i>Rate</i>	<i>Description</i>
	<i>Manager maturity in present role</i>	-	
	<i>Age of the manager</i>	-	<i>Of the 4 firms, 3 managers are &lt;35 year old, one is 35-45 years</i>
	<i>Years within the firm</i>	-	<i>All managers are less than 5 years active within the firm</i>
	<i>Years within the job position</i>	-	<i>All managers are less than 5 years active within their current job</i>
	<i>Personal experience international</i>	+	
	<i>International personal experience</i>	+	<i>Three managers have lived abroad; the fourth travelled extensively</i>
	<i>Social ties to China</i>	+	<i>All but one have strong social ties to China (family or friendship)</i>
	<i>International business experience</i>	-/0	
	<i>International business experience in general</i>	0	<i>Two worked abroad, one only traded and one has no experience</i>
	<i>International business experience in China</i>	-	<i>Three visited China 0-5 times; one visited more often and trades</i>

+ High rating, e.g. high level of experience; 0 Medium rating, e.g. medium level of experience; - Low rating, e.g. limited to no experience. Note: The details on ratings per subject are presented in paragraph 2 of this paper

Table 4.1: Cancelled plans and decision making manager characteristics (N=4 managers)

The international business experience of the four managers (see table 4.1) is rather limited. The managers also have in common that they are relatively inexperienced in their present role. These are entrepreneurs who startup a firm with an international scope. The ownership structure is a director-ownership organization form for all firms. The managers personally do have international experience and possess strong social ties to China. Due to the limited international business experience, they heavily rely on local contacts for business success.

One decision maker comments afterwards:

“We depended on our local contact. And I had my doubts about them from the start. Do they have what it takes? My brother believed in them. Now here, in the Netherlands, we were ready to move forward. But they just don’t or can’t. And we can’t wait. I now have other things to work on. I just don’t have the time to look into it myself.” (Director-Owner, Small start-up company)

Their decision to consider China is largely based on the strong personal network in China. The managers perceive the personal contacts in China as a unique competitive advantage.

Decision makers of small firms tend to depend on local partners to help set-up a business in the host country. Once they realize their local partner can not deliver what is required, they decide to cancel altogether.

### Postponed plans and manager characteristics

Six plans to conduct business in or with China are postponed by six different managers. The plans are not continued now, but there is a chance of moving forward in the future.

The international business experience of the managers is just moderate, even though the companies involved are mature firms with varying firm sizes. The decision makers are mature in age and in their job position. The manager's personal international experience is limited and they generally don't have a network in China.

The limited experience in China makes managers initially form an opinion of China based on media and opinions from in business network. During the decision making process the perception of opportunities in China changes through direct experience. The decision makers realize how they had expected China to be more advanced with regard to manufacturing quality and/or the market growth of advanced products.

### Characteristics managers who postpone plans

	<i>Manager characteristics and experience</i>	<i>Rate</i>	<i>Description</i>
	<i>Manager maturity in present role</i>	0/+	
	<i>Age of the manager</i>	+	Of the 6 firms, 3 managers are <55 years, one is <45 years
	<i>Years within the firm</i>	0/+	All (but one) managers work over 5 years for the firm
	<i>Years within the job position</i>	0/+	All (but one) managers work over 5 years within their current job
	<i>Personal experience international</i>	-	
	<i>International personal experience</i>	-	For 5 out of 6 managers the experience is limited to some travel
	<i>Social ties to China</i>	-	The 6 managers all have no social ties to China at all
	<i>International business experience</i>	-/0	
	<i>International business experience in general</i>	0	For 5 of 6 the international business experience is only trade
	<i>International business experience in China</i>	-	5e out of 6 visited China just 0-5 times; one visited more often

+ High rating, e.g. high level of experience; 0 Medium rating, e.g. medium level of experience; - Low rating, e.g. limited to no experience. Note: The details on ratings per subject are presented in paragraph 2 of this paper

Table 4.2: Postponed plans and decision making manager characteristics (N=6 managers)

One decision making manager comments:

“Once we have enough critical mass, we might transfer our manufacturing facilities to China. But developments have been more slowly than I expected. I had thought changes already had taken place.” (CEO of listed high-tech manufacturing company)

When these managers decide to postpone plans, they feel comfortable doing so. The business problem behind the entry motive is not urgent and their position within the firm is strong enough to change opinions on an investment plan without losing credibility.

#### **Continued plans and manager characteristics**

Most investment plans continue in a manner close to the original entry strategy plan. In total 33 investment decisions receive a positive decision to continue in China, without significant changes to the original scope of the plan. The profiles of the firms as well as the managers vary on most characteristics.

The investments that continue are from firms that are mature in age and already work global. In fact, these firms have in common that their firm strategy is an international strategy. Not surprisingly, the decision making managers are relatively more experienced in international business. What the managers also have in common is a below average personal international experience.

**Characteristics managers who continue plans**

	<i>Manager characteristics and experience</i>	<i>Rate</i>	<i>Description</i>
	<i>Manager maturity in present role</i>	-/+	
	<i>Age of the manager</i>	-/+	11 managers are 35-55 years of age; 3 are younger; 4 are older
	<i>Years within the firm</i>	0/+	Only two managers are less than 5 years active within the firm
	<i>Years within the job position</i>	-/+	The years active in their current job varies from 0,5-20 years
	<i>Personal experience international</i>	-/0	
	<i>International personal experience</i>	-/0	11 managers have limited travel experience, 6 lived abroad
	<i>Social ties to China</i>	-/0	10 have no social ties; 5 have a business network; 2 lived in China
	<i>International business experience</i>	0/+	
	<i>International business experience in general</i>	0/+	9 managers have trade experience; 6 invested before abroad
	<i>International business experience in China</i>	-/+	5 invested before in China; rest varies from no to frequent visits

+ High rating, e.g. high level of experience; 0 Medium rating, e.g. medium level of experience; - Low rating, e.g. limited to no experience. Note: The details on ratings per subject are presented in paragraph 2 of this paper

Table 4.3: Continued plans and decision making manager characteristics (N=18 managers)

**Altered plans and manager characteristics**

Four managers from four different companies alter in total seven investment plans in order to meet objectives and move forward. A plan is considered altered when a decision is made to conduct business in another host country or when a firm opts for an entry mode different than the entry mode(s) considered originally. The companies who alter plans are generally speaking global and multiregional operating companies. The companies are mature in terms of firm age and firm size.

**Characteristics managers who alter plans**

	<i>Manager characteristics and experience</i>	<i>Rate</i>	<i>Description</i>
	<i>Manager maturity in present role</i>	-/+	
	<i>Age of the manager</i>	0/+	3 of 4 are older than <45 years, 1 is 35-45 years of age
	<i>Years within the firm</i>	+	3 managers are over 5 years active within the firm
	<i>Years within the job position</i>	-	3 managers are < 5 years in their current job; One is 6 years
	<i>Personal experience international</i>	-/0	
	<i>International personal experience</i>	-/+	Varies from no experience to lived several times abroad
	<i>Social ties to China</i>	-	Three of four have no social ties to China; One lived/worked China
	<i>International business experience</i>	+	
	<i>International business experience in general</i>	+	All four invested before overseas
	<i>International business experience in China</i>	-/+	Varies from no experience to living/investing before in China

+ High rating, e.g. high level of experience; 0 Medium rating, e.g. medium level of experience; - Low rating, e.g. limited to no experience. Note: The details on ratings per subject are presented in paragraph 2 of this paper

Table 4.4: Altered plans and decision making manager characteristics (N=4 managers)

These firms expanded successfully in the past and realize most sales international. For firms that alter investment plans, international business activities in general are of strategic importance. The motivations to expand to China are for all four strategic in nature and serve long term goals for the firm. When faced with disappointment, alternative options to realize strategic goals are evaluated, resulting in a conclusion that alternative plans are beneficial.

The profiles of the decision makers who alter plans vary largely, except that they all have professional international business experience. Due to their limited experience with China and a lack of social ties, the initial assessment for opportunities in China was not adequate. Their general international business experience is what helps them evaluate options so that despite disappointment, they continue to work on alternative solutions.

**Entrance continuation rates and manager characteristics**

A comparison of international business experience across the cases that cancel, postpone, alter and continue investment plans, supports the internationalization process view (see table 4.5). Commitment to the plan increases with the entrance decision status from cancel, to postpone, continue and alter. The highest commitment for plans is given by those firms that alter the plans, as additional effort is made to change the original plan despite initial disappointments. A higher commitment is related to more professional international business

experience of the manager, e.g. for business experience in general and business experience in China specific.

### Manager experience for different entrance commitment levels

	Manager characteristics and experience	Cancel	Postpone	Continue	Alter
	Manager maturity in present role	-	0/+	-/+	-/+
	Age of the manager	-	+	-/+	0/+
	Years within the firm	-	0/+	0/+	+
	Years within the job position	-	0/+	-/+	-
	Personal experience international	+	-	-/0	-
	International personal experience	+	-	-/0	-/+
	Social ties to China	+	-	-/0	-
	International business experience	-/0	-/0	0/+	+
	International business experience in general	0	0	0/+	+
	International business experience in China	-	-	-/+	-/+

+ High rating, e.g. high level of experience; 0 Medium rating, e.g. medium level of experience; - Low rating, e.g. limited to no experience. Note: 1. The details on ratings per subject are presented in paragraph 2 of this paper

Table 4.5: Entrance commitment and decision making manager characteristics (N=26 managers)

Contrary to what is expected, are managers with a stronger personal network in China or more personal experience in working/living abroad, not committed more strongly. Firms that cancel have stronger personal ties to China. The firms who cancel based their business plan entirely on the local contact and decide to cancel when they are disappointed. In fact, in general, disappointment in the potential local partner is the most heard reason to cancel, postpone or alter plans. The host country local network thus plays an important role in the ability to go ahead with an investment plan, yet an increasingly strong personal network does not relate to a higher chance of commitment to entrance.

## Findings

The main contribution of this thesis is the analysis of the relationship between managerial characteristics and the foreign entry commitment choice. How do managerial characteristics relate to the Go/No-Go entrance decision? Below the findings are discussed in relation to the manager's maturity in the job position, the personal international experience and the international business experience.

### Maturity in job position

Table 4.5 does not show a clear relationship between the maturity of the manager in the job position and the commitment to entrance. The managers who cancel though, are younger managers who start-up an international business plan as an entrepreneur.

### Manager maturity in present role and entrance commitment levels

	<i>Manager characteristics and experience</i>	<i>Cancel</i>	<i>Continue</i>	<i>Alter</i>	<i>Postpone</i>
	<i>Manager maturity in present role</i>	-	-/+	-/+	0/+
	<i>Age of the manager</i>	-	-/+	0/+	+
	<i>Years within the firm</i>	-	0/+	+	0/+
	<i>Years within the job position</i>	-	-/+	-	0/+

+ High rating, e.g. high level of experience; 0 Medium rating, e.g. medium level of experience; - Low rating, e.g. limited to no experience. Note: The details on ratings per subject are presented in paragraph 2 of this paper

Table 5.1: Entrance commitment and decision making manager characteristics (N=26 managers)

Table 5.1 presents the cases in another order. A closer study of the entrance outcomes reveals how managers who are more mature, tend to have 'more patient' or are less likely to make 'fast, resolute decisions' in the entrance Go/No-Go decision. Those who cancel have a lower maturity in the job position, followed by the managers who continue. Managers that postpone plans are the most mature in their job position, with regard to age, years within the firm and years within the present role.

Age is generally associated with more conservative behaviour in decision making within the firm (Janssen, 2002). According to scholars in this field, an older manager is in principle less inclined to adopt innovative behaviour (Hambrick, 1984). The present study confirms how older managers postpone or alter plans, with less focus on the 'deadline' to make sure the right decision is made. A younger manager is often claimed to be more inclined to take risks (Hambrick, 1984). In our cases, younger managers either decide to continue or cancel altogether, less often assessing the other opportunities to postpone or change plans.

### Personal international experience

The table 4.5 on personal experience of the manager and the outcome of the entrance decision reveals an interesting pattern. Managers who postpone or alter plans have limited personal international experience, while managers who cancel are mostly more experienced in personal international experience.

The social network of organization members is important for the business success of start-ups (Rhee, 2008). Firms that cancel plans in this study are small firms who build a plan on a relationship with a local partner, which later turns out to be less fortunate. Learning about (opportunities in) foreign markets often occurs through collaboration with local firms

(Eriksson, 2003). Our findings confirm how young and small firms require collaboration with foreign partners to make initial entrance into foreign markets (Shrader, 2001; Oviatt, 2005). When this local contact is not performing a role as expected, the plans are cancelled.

Managers who postpone entrance, have the least personal international experience. Before the entrance into China is considered, the managers have limited business experience and hardly a network of business contacts. Once the decision makers learn more about the precise nature of present business opportunities in China, they decide to postpone entrance due to a lack of suitable partners, the present state of the market and/or the current phase of technological development. The initial uninformed optimism is reviewed and reconsidered to make necessary adjustments on the timing of entrance.

### **International business experience**

The results in table 4.5 show that managers with more international business experience increasingly commit to continuation of investment plans considered. The relation between experience and commitment is most strongly reflected in the low experience of managers that cancel and the high experience of managers who alter investment plans in order to continue. This pattern is reflected in both the general international business experience and in the host country experience. As managerial cognitive processes play a pivotal role in international business decision making, the above effects can and should not be ignored.

The basic premise of the internationalization process view is that firms increase commitment to foreign markets with growing experience in international business (Johanson, 1977). So far, the role of the decision making manager has been largely ignored. The results of the present study show that managers with more international business experience increasingly commit to continuation of investment plans considered. The findings of this research support the internationalization process view for experience of the manager and for the entrance choice. I thus propose to expand Internationalization research to include the Go/No-Go entrance decision and to include the managerial experience.

### **Recommendations for further research**

The paper recommends to further study the role of the manager in International Business research. The opinions and assessments of decision makers lead to entry choices, not the so-called objective macro-measures at the country level. Further research is recommended on both manager characteristics and firm characteristics -and the interaction between them- in relation to the entry commitment.

More research is proposed with larger numbers of cases to test the paper's findings on a larger scale. Further study should include other host countries and other home countries. The host and home country both influence perceptions of foreign business conditions, and the same is true for a combination of a host and home country (Chapman, 2008).



Study of actual entrance choices reveals patterns quantitative host-hoc analysis is not able to identify. In-depth longitudinal study is recommended to learn about growth in managerial experiential knowledge, changes in managerial cognitive systems and patterns of managerial host country assessment (Chetty, 2006).

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**ISOMORPHIC EFFECT OF AN IMMIGRANT PRESENCE IN THE FIRM:  
EMPIRICAL COMPARATIVE CASE STUDY ON THE FOREIGN ENTRANCE  
SUCCESS RATE AND THE ROLE IN THE PROCESS  
OF IMMIGRANTS WITHIN THE FIRM**

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**Abstract**

The purpose of this paper is to compare the role immigrants fulfil in foreign entrance plans and assess how this relates to the outcome of the foreign entrance Go/No-Go decision.

Comparative case studies are ideally suited to learn how and why firms arrive at the Go/No-Go decision to cancel, postpone, continue or alter foreign entrance plans. A total of 25 Dutch firms are studied while making Go/No-Go decisions for 54 business activities in or with China, of which 15 plans include involvement of immigrant employees, entrepreneurs or managers. The research is unique in that it follows firms of different size over time, while they make highly strategic choices in an uncertain and unknown foreign business environment. Data is gathered on the entry strategy process, the characteristics of managers involved and the entrance Go/No-Go decision. The outcomes of the decisions are reviewed against the role in the process of managers with family ties to China.

Findings confirm how among the firms that continue in entrance, the presence of immigrants in the firm is relatively high. But, and this is unexpected, the same is true for firms which cancel plans for China. The difference in outcomes can be explained with the role immigrants fulfil within the firm foreign entrance plans. Especially firms that cancel developed plans which highly depend on family ties within the host country.

This research project is unique in that it not only report on the foreign entrance Go/No-Go decision, but it captures how plans for entrance evolve in time. The isomorphic effect of the immigrant on entrance is an unanticipated and most interesting finding.

**Keywords:** social ties, strategy process, foreign entrance, immigrant effect, Go/No-Go

**Introduction**

When entering a foreign country, a firm faces country uncertainties as well as internal uncertainties on the ability of realizing success abroad (Podolny, 1994; Meyer, 2001). Firms have preferences for countries they are familiar with. While experiential knowledge is

important for international business choices, firms can also learn from the lessons of others (Hadley, 2003). In addition to firm experience and social networks in international markets, personal experience of managers plays a role in foreign entry decision-making (Collinson, 2005). The general insight that organizations learn from individuals and individuals from organizations (March, 1991) has been largely ignored in international business research.

In the past decade scholars became more aware of the effect of a specific kind of international experience within the firm: the immigrant effect (Chung, 2001; Tadesse, 2008; White, 2008; Madhavan, 2009). An immigrant effect refers to the impact an immigrant employee, employer or entrepreneur has on the success of international operations, principally when an organization engages in the immigrant's country of origin (Hyde, 2002; Chung, 2004). The insight of multicultural entrepreneurs, employees and managers who originate from the foreign host country can support the understanding and confidence to develop successful foreign entry strategies.

### **Contribution**

This paper adds a new angle to research on the immigrant effect by addressing the research question: What is the role of immigrants in the foreign entrance decision process? The research project follows international business plans for China before final decisions on entrance are made, analyzing the outcomes of the Go/No-Go decision.

The longitudinal approach allows for unique insight in how entry strategy plans evolve, or, do not evolve. The study's contribution lies partly in the fact that some of the case companies decide not to continue entrance into China, while others cancel, alter or postpone plans. Of the 54 investment plans under consideration, only 33 continue in a manner similar to what was intended. Seven plans are seriously altered, e.g. continue in a different host country or with a different entry mode. Six plans are postponed and eight cancelled.

An important limitation in existing internationalization research is that data is gathered post entrance. Due to the origin of the statistical data of previous work, the firms analyzed are those that decided on entrance into the host country and are still present. This paper provides unique access to companies before the entrance decision. Of the 15 plans that involve immigrants from within the firm, 5 plans are cancelled and 10 continue as planned. To the best of my knowledge, so far there are no studies that report on the immigrant effect in relation to the Go/No-Go decision for foreign entrance.

### **Literature**

In unknown business environments organizations and individual managers need to interpret and make sense of large amounts of complex data (Daft, 1984). To assess new business problems or environments, managers follow implicit theories distilled from prior experience or knowledge (Hohenthal, 2003; Branzei, 2004). To make decisions on foreign entrance, insight in local conditions is essential. This can be obtained through firm host region

experience, knowledge gathered through others outside the firm or by assigning managers with in-depth knowledge of the host country.

### **Host region experience**

Foreign firms need to interpret and assess an unknown host country business environment to make adequate entry decisions. Cultural distance is studied extensively as an explanatory factor for patterns of internationalization, with inconclusive outcomes so far (Dow, 2007; Ellis, 2008). Many entry mode studies model the cultural distance between an MNE's home country and the host country as the extent to which the shared norms and values in the home country and host country differ from one another (Hofstede, 1980; Kogut, 1988; Tadesse, 2008).

Experience in a host country or in neighbouring countries provides managers insight in the new business environment and thus reduces uncertainty of entrance. This enables firms to make better judgements for entry and manage operations abroad with more success (Barkema, 1996). Business experience in the host region has a positive effect on entry commitment. Firms with previous experience in a country are also more successful in terms of performance of new activities in the same host country (Luo, 1999).

### **Social networks**

Firms are able to acquire international knowledge from social network (Chetty, 1998). The development and utility of a foreign network creates a learning process that supports internationalization (Welch, 1996). Network ties increase foreign firms' expansion and profitability of its activities abroad (Johanson, N. Hood, Vahlne, J.-E., 1988; Li, 2009). An existing network in a host country facilitates business activities, especially in the decision making phase, the start-up phase and in case of any dispute occurring later on (Jensen, 2003; Chen, 2009). Access to international networks relates to international business success (Wilkinson, 2000; Griffith, 2004).

Learning about (opportunities in) foreign markets often occurs through collaboration with local firms (Eriksson, 2003). Firms are embedded in networks of interconnected social relationships that offer opportunities for and constraints on behaviour (Blankenburg, 1992; Johanson, 1992; Carpenter, 2001; Brass, 2004). Social ties in the host country support the search process and increase the success rate of finding a long term local business partner (Leung-Kwong W., 2002). A local partner can help reduce host country uncertainties by providing (1) capabilities, resources and access to a local business network, and also (2) knowledge of the local business environment. Local business contacts provide access to resources and bring legitimacy to the new to set up enterprise. In fact, local partners are in a position help the foreign firm understand the countries' uncertainties, opportunities and difficulties and thus influence entry mode choice (Doherty 1999). Firms with a top management team with a larger international network, find alliances and JV partners more easily (Eisenhardt, 1996).

An often successful approach to learn about foreign markets is through employees, managers or entrepreneurs with a multicultural background.

### **Immigrant effect**

The immigrant effect can compensate a lack of knowledge of the host country and overcome differences between conditions for business in the home and host country. The immigrant employee or manager knowledge of their origin country is manifested in the areas of culture, language, the legal system, market information and business operations (Gould, 1994; Chung, 2002; Wagner, 2002; Chung, 2004). Knowledge in these areas increase the chances of success in international business.

In the past decade scholars studied the immigrant effect from several points of view (White, 2008). On a country level, studies find how the presence of immigrants in a country relates positively to international bilateral trade volume and investment flows (Gould, 1994). Firms established by immigrants originating from the host country also tend to choose higher commitment FDI entry modes (Chung, 2001). Immigrants bring business skills, knowledge of the foreign country, social networks and financial resources, which provides a foundation for international trade and foreign investments (Lever-Tracey, 1991; Duncan, 1997).

The impact of immigrant presence on business decisions is a subject that becomes increasingly important with growing business globalization and increased immigration worldwide. So far, hardly any academic work studies the subject in-depth, taking into account the context and particularities of business decisions in which immigrants are involved.

### **Method**

This paper reports on the process and the outcome of the foreign entrance decision process. During 2006 and 2007, a number of 25 Dutch firms are studied while they consider to conduct business in or with China. This results in a comparative case study on a total of 54 entrance plans for business activities in or with China, of which 15 involve immigrants in the process. Data is gathered by conducting several short telephonic interviews with the main decision maker during the time period, followed by an in-depth semi-structured interview of several hours conducted after choices for entrance are made. Before any interviews takes place, documentation on the company background is collected through desk research, e.g. internet search, company website, and if available annual report.

The result is an analysis on the entry strategy process, the outcome of the Go/No-Go decision, and the demographics of managers involved in decisions. The findings reveal four different outcomes of the Go/No-Go decision, e.g. cancel, postpone, continue, alter and how these relate to the presence and involvement of immigrants from the host country within the firm. So far there are no studies that report on the immigrant effect in relation to the Go/No-Go decision for foreign entrance.

The set of cases studied is well balanced with regard to firm and investment characteristics (Eisenhardt, 1989; Bell, 2004). The selection criteria for the cases are well-known influencing factors for foreign entry choices, e.g. foreign entrance motivation, firm size, industry and level of international business experience of the firm. As a result, findings are grounded in varied empirical evidence (Eisenhardt, 2007).

## Results

Following firms during the entry strategy process creates a unique setting for gathering insights on the continuation rate of international business plans, even before entrance. During field research several plans are canceled, postponed or altered. Of the 54 investment plans under consideration, only 33 continue in a manner similar to what was intended. Seven plans are seriously altered, e.g. continue in a different host country or with a different entry mode. Six plans are postponed and eight plans cancelled altogether. Of the 15 plans from firms that involve immigrants, 5 plans are cancelled and 10 continue as planned.

This paper reveals how the Go/No-Go decisions for entrance relates to the presence of immigrants within the foreign firm. The entrance plans of firms with family ties in China are discussed more in-depth below, covering the process and the outcome of the entrance decisions. It reveals how firms involving employees with family ties in China either cancel or continue plans, depending on the role in the entrance strategy these employees and their family ties have. Some firms benefit from family ties to the host country, while other do not.

### Outcome of the Go/No-Go decision

The analysis reveals how firms who postpone or alter plans have no managers or employees with family ties involved in the entrance process. Ten of the cases who do continue are from firms who involve immigrants from within the firm in the entrance process. Decision making managers have explained that the insight into host country culture within the firm is perceived as an advantage for conducting business in China. There thus is an immigrant effect in these firms which support a positive entrance decision into a new host country.

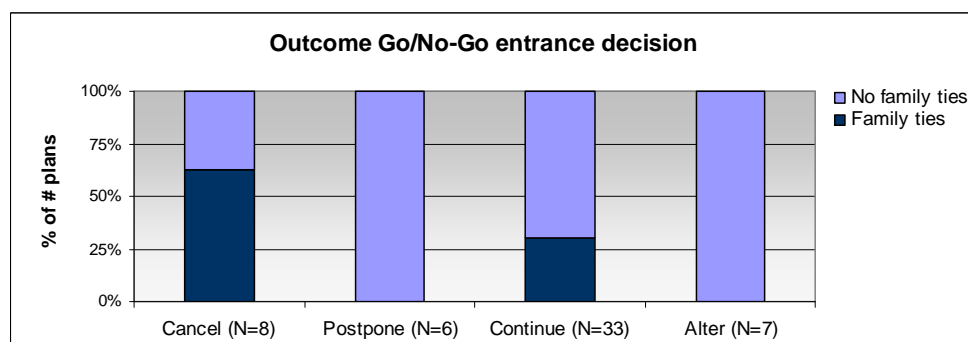


Figure 2: Outcome Go/No-Go decisions for 54 investment plans



The analysis of the outcomes of the Go/No-Go decision also reveals an opposite effect. A large portion of plans that are canceled are from firms who actively involve family ties. Actually, plans from firms with family ties in China, more often cancel than firms with only a business network or no social ties to China. From the 15 plans that involve employees, owners or managers with family ties in China, 5 out of 15 cancel plans. Moreover, of the 54 plans considered, a relatively high number of managers explaining the entry strategies mention spontaneously the role of an immigrant within the firm. Managers perceive immigrants to have a strong effect on business success.

The question remains how within some firms the presence of immigrants leads to a positive entrance decision, while in others cases it results in a decision to cancel plans altogether.

#### **How entrance choices are canceled**

The two firms who involve Chinese persons within their firms, cancel in total five plans for China. They both went through a similar process. Both are small startups with an international business plan, e.g. they would have been born globals. The plans are actually based on an existing personal relationship in China. This personal relationship is considered an unique advantage and it in fact triggers the intention to develop business activities in China.

Below event flow matrix presents the events that occur in order of appearance (Miles, 1984).

<i>Event flow</i>	<i>Firm 1</i>	<i>Firm 2</i>
<i>Become aware of network</i>	<i>The parents and brother of a Dutch Chinese immigrant entrepreneur still live in China (and are Chinese).</i>	<i>Two Dutch brothers have a Dutch-Chinese friend with family in China.</i>
<i>Share intentions business</i>	<i>The brother in China is searching for a job opportunity in business, and his Dutch-Chinese sister wants to help.</i>	<i>The two Dutch brothers together with the Dutch-Chinese friend decide to start a business in China.</i>
<i>Develop business context</i>	<i>The Dutch entrepreneur meets exporter of silk Chinese sjawls and develops a plan to import certain silk products.</i>	<i>The local family invests in retail real estate and offers this at no rent if their daughter can become (local) manager.</i>
<i>Define opportunity</i>	<i>The Chinese operations are considered "easy", as the family/brother takes care of everything local, which helps her brother.</i>	<i>Decisions are made on the product category. Future position of the Dutch entrepreneurs (trade or retail) remain uncertain.</i>
<i>Start implementation</i>	<i>After the brother agrees, they together select the manufacturers in China.</i>	<i>After the retail location is bought by the local family partner, the Dutch entrepreneurs select an import agent in China.</i>
<i>Define business plan</i>	<i>Then the Dutch entrepreneur starts developing the product business positioning and Marketing &amp; Sales plan.</i>	<i>Four different business plans are developed. How the two firms divide roles and work together is still unclear: they share intentions &amp; trust each other.</i>
<i>Perceive hurddles</i>	<i>Marketing &amp; Sales is difficult in a business sector they normally do not work in.</i>	<i>The family in China is not moving forward and this is causing delays.</i>
<i>Decide to cancel</i>	<i>The entrepreneur hands over the plans to another Dutch entrepreneur (no family), due to a lack of time.</i>	<i>The plan is canceled altogether, as success depends on involvement of the local partner.</i>

Table 1: Event flow analysis for small firms canceling plans

The firms that cancel plans for China are all startups with limited international business experience and limited experience in China. The opportunities they pursue, are triggered by a personal relationship. They have family ties in China with whom they want to conduct business. Their family ties are perceived a unique competitive advantage and they build a partnership which is largely based on trust. When later on the progress in the start-up plans are dissatisfying, the entrepreneurs stop the startup entirely. They do not have the time, experience, or resources to develop the business opportunity independently of the preferred local partner.

### **How entrance choices are postponed**

Of the firms who involve immigrants, five firms decide to continue a total of ten plans. The entrance strategy process evolves according to varying patterns. The plans evolve differently,

but what they have in common is that the Chinese managers/employees' local network in China plays a limited role in the entrance plan, compared to plans that are canceled. This is an important difference with the plans who are canceled. Another important difference is the firm size. The five firms who continue vary in firm size from medium-sized (two) to large firms (two) and one large corporation, while none of these firms is a small firm.

	<i>Immigrant job position</i>	<i>Responsibilities entrance plan(s)</i>	<i>Opinion on the value</i>
<i>Firm 1</i>	<i>Dutch young employee of firm, who already lived in China before he was hired. He now permanently lives in China, speaks Chinese and is married to a Chinese woman.</i>	<i>He was hired to manage the office (and later on the factories) in China locally. The employee manages all operations in China on a daily basis and is prepared to move to new locations in China with his (Chinese) family according to firm needs.</i>	<i>Having a Dutch manager in China is considered very important for the firm. Luckily, he is very flexible with regard to where he lives in China.</i>
<i>Firm 2</i>	<i>The decision making manager is Chinese, was born in the Netherlands and lived up to the age of 5 years old in Hong Kong. His parents are Chinese.</i>	<i>Is responsible for investment decisions in several foreign countries, among which China.</i>	<i>The manager considers it an added value in decision making that he knows both cultures well, understanding from both the European and Chinese point of view the opportunity misperceptions, which helps making choices.</i>
<i>Firm 3</i>	<i>A Chinese-Dutch employee in the Netherlands, who lives in the Netherlands for &gt;20 years now. While the firm already was active in China, the employee was not involved in these other (older) activities.</i>	<i>This employee, though not formally responsible for foreign investments, proposed a new business idea, which is based on her knowledge of activities in China (her family in China are experts in this field).</i>	<i>The immigrant is a driving force behind the idea initially and provided a network of specialists in China. In realization of the business idea the immigrant role is limited.</i>
<i>Firm 4</i>	<i>A Chinese man living in the Netherlands was hired to do sales towards China from the office in the Netherlands.</i>	<i>Later on the presence of a Chinese manager became very convenient, when business took off in China and offices are opened in China. He moved back to China with his family to run the business locally.</i>	<i>It is perceived as pure luck that the firm hired a Chinese person in The Netherlands. It later on became very convenient, especially as the immigrant manager did not mind moving back to China.</i>
<i>Firm 5</i>	<i>A Chinese-Dutch employee works in the Netherlands in logistics department.</i>	<i>When new business plans are developed in China, she is identified as a suitable person to get the job done locally in China.</i>	<i>She is no decision maker for entrance, but after entrance is responsible for managing operations on daily basis.</i>

Table 2: Involvement immigrant and effect on entrance for plans continuing

Firms who continue plans in China develop business plans with a Chinese immigrant who already has a business relation with the firm. The plan however, does not depend on the involvement of the immigrant employee/manager. The business relationship with the immigrant is perceived to be an advantage which gives additional confidence in the business activities success.

## **Findings**

The paper is able to report on the immigrant effect in the foreign entrance decision. It shows the isomorphic effect of the presence of immigrants in the firm on the outcome of the Go/No-Go decision. An in-depth analysis of the cases studied reveals how the role of immigrants varies between firms who cancel and firms who continue activities in China.

### **Isomorphic immigrant effect**

Scholars have discussed before the positive effect of the presence of immigrants within firms in establishing international business activities. The present work adds to this discussion by presenting an isomorphic effect of the role of immigrants on firm success.

For firms who continue the entrance plan for activities in China, a relatively large proportion involves employees with a multicultural background, e.g. both Chinese and Dutch. An involvement of immigrant employees/managers increases not only the continuation rate, it supports efficiency in the decision making process as none of these firms decide to consider alternative solutions or postpone plans. This supports the notion that multicultural orientation brings insight and direct knowing to the decision making process.

An assessment of all entrance plans considered, results in a different conclusion. On average, entrance plans of firms that involve immigrants frequently lead to a cancellation of plans in the Go/No-Go decision. Across all firms, those who depend on contributions of immigrants, less often are successful in the entrance decision making phase. This finding opens a new angle to the discussion on the immigrant effect.

### **Entrance decision making process**

What the companies who cancel have in common, is that the family ties in China are what actually triggers the intention to conduct business with China. The perceived opportunity is based on the family ties the entrepreneur has in China. These are seen as a unique competitive advantage for business on whom they fully trust. When later on, the relationship does not deliver or is less solid than expected, these small firms do not search for new opportunities.

This is different for those firms who do continue with China. The immigrant employee/manager is seen as an added value, but it is not seen as the reason to conduct business in or with China. Also, the entry strategy does not involve family ties of the immigrant in the host country. The firms solely rely on the professional expertise of the immigrant employee/manager and sometimes their business network. This is in line with

findings from previous work which suggests that business connections are more important in establishing business relations abroad, than family or personal relationships (Millington, 2006). These cases suggest family ties more often lead to failure of business plans.

In the cases who cancel, the role the immigrant in the business start-up is different as well. These are Dutch-Chinese entrepreneurs who want to start a business together with a relative that lives in China. The Dutch-Chinese entrepreneurs as well as the relatives in China have an active role in both strategy development and the future day-to-day operations. The business plan thus highly depends on active involvement of both the immigrant and their relatives. Moreover, the relatives are not part the parent organization or formally bound to any involvement. The relationship so far is based on shared intentions and mutual trust.

Firms that cancel investment plans are mostly small firms with limited international business experience and limited resources. This influences choices in both the decision making phase and the way they can run operations abroad. Our findings confirm previous studies that suggest young and small firms are often resource-constraint and have limited alternatives as they require collaboration with foreign partners to make initial entrance into foreign markets (Shrader, 2001; Oviatt, 2005). The social network of organization members is important for the business success for young start-up firms (Rhee, 2008). These firms do depend on the local partner in learning about the host country. When they face too many disappointments in this relationship, they are not able to explore alternative options to go forward alone. The business plan is then often cancelled.

For the firms who do continue, immigrant employees are actively involved and their contributions is valued. But the business opportunity does not depend highly on their involvement. Moreover, the immigrant employees/managers involved are working directly for the parent company and can be asked to be involved in the business plan in a manner most beneficial for the company.

### **Suggestions for future research**

A limitation of this research is that it is conducted on foreign entry decisions of only 25 Dutch firms evaluating 54 business opportunities for China. Additional research is recommended with larger sample sizes including various home and host countries, to make sure the most relevant factors for the outcome of the entrance decision are identified.

For future work, a more detailed process analysis on the entire entry strategy process is recommended including roles and behaviour of various managers within the process, to understand how firms arrive at entry choices (Harris, 2000; Sarasvathy, 2001; Chandler, 2009).

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## THE EFFECTS OF ECONOMIC CRISIS ON GREEK WOOD AND FURNITURE SECTOR AND WAYS TO CONFRONT IT

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### **Abstract**

The aim of the present research is to analyze and evaluate the impacts of the current financial crisis on the Greek enterprises of timber, furniture and wooden frames and define effective ways of confrontation. Based on a prototype questionnaire, specifically structured for the aim of the research, 60 responses were collected from Greek timber, furniture and wooden frames enterprises on January – March 2010. The questionnaires were processed and analyzed with the statistical program SPSS of ver 17.0 using descriptive statistics and correlation analysis. The main purpose was to explore the current situation of the sector's enterprises and their prospects of survival and growth. In their majority the Greek wood and furniture enterprises have been affected by the recent economic crisis negatively or very negatively, while there is a very small percentage which enjoyed a positive impact. The forecasts show that the situation is getting worse, which points to a real crisis in the sector's economic basis. The reduction of sales and profits exceeded 25%. The enterprises believe that recovery will come through their own planning, by setting new short and long term objectives and strategies such as new collaborations with suppliers and customers, reduction of product prices, and consequently the reduction of total expenses such as marketing and personnel / executive costs, the bonus -cut, as well as the increased emphasis on publicity. The core marketing strategies are focused mainly on high quality, low prices and a culture of continuous improvement. The present research constitutes a basis for cooperation and synergy creation of Greek timber and furniture enterprises in order to overcome the consequences of the national and global economic crisis and secure a further development. The forecasts of sales, profits, number of customers and share of market, as well as the discussed ways and strategies of crisis management will contribute to erase awareness among the sector's enterprises and enable entrepreneurs plan their future strategy. This field research is the first to investigate the consequences of the resent economic crisis in the Greek wood and furniture market. It is also one of

the few efforts at international level that focuses on the specific problem in an explorative way beyond simplistic statistical data.

**Keywords:** Economic Crisis, Furniture & Wood Products Enterprises, Effects of crisis, Marketing Strategies

## **Introduction**

### **Economic and credit crisis and growth.**

The global economy is recovering from the deep recession that has occurred during the last period. While the crisis resulted quickly in deep recessions in a number of advanced economies, the emerging market and developing economies were also seriously affected, but the impact varied across regions and countries (World Bank 2009, International Monetary Fund (IMF) 2010, Claessens, Kose and Terrones 2010).

Although the process of global economic recovery is already underway, the nature and implications of the crisis have still been at the centre of academic and policy discussions. Its root causes are thought to lie in the excessive global savings, flowing through a poorly regulated shadow banking system in the United States to its housing market (Krugman 2009) along with European economies imbalances (IMF 2009 and 2010). Some others claim that the idea of this crisis being different is misleading, as an analysis and compared with earlier ones, presents remarkable similarities with them (Reinhart & Rogoff, 2009). The crisis originated in the United States, but it took place in a highly integrated global economy and spread rapidly across markets and borders. Although it was not surprising that a global crisis led to a significant decline in global activity, the extent and duration of this decline have been a major area of research.

Furthermore, credit booms in some developed countries and in emerging economies, combined with poor lending practices and the long lasting period of these booms, increase in systemic risk and failures in regulation and supervision created much vulnerability. While only a small number of credit booms end up in a banking crisis the probability of a crisis increases with a boom (Helbling & Terrones 2003, Dell'Ariccia, Barajas et al. 2008, Dell'Ariccia et al. 2008). The effect of financial liberalization on growth and its impact on producing financial crises is a fact with banking and currency crises increasing as a result of financial liberalization (Demirguc-Kunt and Detragiache 1998, Kaminsky and Reinhart 1999, Glick and Hutchinson 2001).

However, the crisis has also highlighted some specific financial sector reform challenges for emerging markets and developing countries (Claessens, Kose and Terrones 2010). In most advanced economies, fiscal and monetary policies should maintain a supportive thrust in 2010 to sustain growth and employment (IMF 2010). Economic recovery is on the way for many of the developed economies according to IMF projections for 2010 and 2011.

Focusing to sectors economic activity, researchers argue that financial crises have a negative impact on sectors development (Kroszner et al. 2007). On average, a country experiencing a banking crisis, would experience a 1.6% greater contraction in growth in value added between the crisis and pre-crisis period (Kroszner et al. 2007) and an overall mean decline in growth of 3.5% between these two periods. Similar are the results concerning at a firm-level (Kroszner et al. 2007), with trade channels to be important factors determining how crises are transmitted internationally, among firms (Forbes 2004). Unfortunately, financial crises are cyclical phenomena and a characteristic of the capitalism economic system (Buiter 2007). Meanwhile, the ongoing macroeconomic shocks will expand the weakness of households that are unable to service their debt, many of them from among the ranks of relatively richer households. Finally, there is evidence that the food and fuel crisis is not over and a new round of price increases, via currency adjustments, will have substantial effects on net consumer's income (World Bank 2009).

### **The E.U. manufacturing - construction sector**

The EU economy and its manufacturing sector seem at last to be emerging from the recession with Gross Domestic Product (GDP) in the third quarter rising by 0.3% on the previous quarter after five consecutive quarters of contraction, and manufacturing output up by 2.8% in November as compared to its trough in March 2009 (European Commission 2010). Most Member States showed a clear rebound in GDP with only Spain and Greece still in negative territory. Among the largest Member States, the strongest growth was seen in Germany (0.7%) and Italy (0.6%). However, manufacturing output in eight Member States has not really recovered yet, and construction output is still on a downward trend in most countries (European Commission 2010). The available data shows that for the 20 Member States for which data is available, industrial production increased in 16 and fell just in four, while construction sector continues to decline. The output in the EU27 fell by 1.6% in the third quarter of 2009 compared with the previous quarter. Not only the activity in building construction declined by 2% but also the production value of civil engineering remained stagnant in the third quarter of 2009 compared to the previous quarter (European Commission 2010). Many EU countries, are still concerned by this decline of the economic activity in the construction industry. Among the countries for which data are available (European Commission 2010) for the third quarter of 2009, construction output compared to the previous quarter rose only in Poland (+5.3 %), Luxemburg (+4.5%), Finland (+3.0 %) and the Czech Republic (+0.4%). The largest quarterly decreases were registered in Lithuania (-15.3%), Latvia (-11.8%), Estonia (-11.4%), Ireland (-9.9%), Slovenia (-9.8%), Romania (-7.9%), Greece (-7.2%) and Spain (-6.1%). There are pessimistic views about the stabilisation of the situation and a possible recovery in the coming months.

There are several powerful forces holding back the recovery in Europe. Sizable fiscal and current account imbalances are constraining recovery in several euro area countries, with potentially negative spillover effects to the rest of Europe. Indeed, concerns about sovereign

solvency and liquidity in Greece (and possible contagion effects on other vulnerable euro area countries) have threatened the normalization in financial market conditions (IMF 2010).

Focusing to the sectors of wood and wood products and furniture, available data (European Commission 2010) shows that, the furniture sector at the end of 2009 had already started rebounding since its previous peak at the first quarter of 2008 having an up to 1,5% growth during a three months period at late 2009, while decline still goes on for wood and products of wood sector showing lower performance up to 20% since its peak at the first quarter of 2008. Never the less the % growth rate is still at negative territory for both sectors with -17,5% and -11,0% concerning the third quarter of 2009 and up to -17,2% and -15,2% for the 2009 (till November) for furniture and wood sector respectively. Seasonally adjusted data of the 2009 monthly evolution (European Commission 2010) show that variances are present for both sectors. Finally, data concerning exports value % change show that, still much has to be done in both sectors, as growth lies in negative numbers for 2008 and for 2009 (-15,6% and 22,3% for October and November respectively of 2009 in comparison to previous year corresponding period for furniture and -12,5% and -16,4% for wood and products of wood) (European Commission 2010).

### **The Greek problem**

The Greek economy expanded quickly through 2008, narrowing the income gap with the euro area. However, after the boom years Greek economy faces one of the deepest recessions in its modern history. Projections for 2010 – 2011 shows Greece having a negative development (-2% in 2010 and -1,1% for 2011) and unemployment rising from 12% to 13% respectively (IMF2010), while till recently previous data were more optimistic (IMF 2009). Furthermore, domestic demand is weakening along with industrial and manufacturing production and private consumption declining (IMF 2009).

Indicators also, suggest a significant competitiveness gap. Although restructuring has taken place over the last decade, as suggested by technological upgrading of exports, increasing specialization in high-growth services, and orientation toward fast-growing Balkan markets, Greece has lost market share (at least in volume terms) and competitiveness relative to peers. Greece's price competitiveness gap reflects high administrative costs and inefficiencies, high margins in several sectors, and rising labour costs. Doing business in Greece is difficult especially on information society and enterprise environment. Steps have been taken to improve the business environment, boost competition in specific sectors (Erasmus Research Institute of Management 2006, European Commission 2007, Observatory of European Small-Medium Enterprises 2007) as long as in wood sector (Karagouni and Papadopoulos 2006, EOMMEX 2006, Karagouni et al. 2010).

Greece is, facing nowadays one of the most strict and heavy program of economic, financial and structural reforming in its latest history. One of the questions that rise now in Greece is how to overcome this crisis, not only through the IMF and EU support, but also through a

political reforming and facing the challenge in building the skilled labor force needed, supporting industrial sector, social unity and banking system stability, to ensure that the country embarks on a path of sustained, and equitable, economic growth.

The financial crisis has caused unusual uncertainty to Greek enterprises because of the lack of demand, liquidity and confidence. A first analysis of general statistic data (Hellenic Statistical Authority (2010a & b) shows:

- A reduction of building activities volume by -22.6% and of the number of building licenses by -14.2% (December 2009/ December 2008). The biggest reduction has been observed in Ionian Islands (-20.1%), Thessaly (-17.9%), Northern Aegean (-17.6%), Attica (-17.3%), while the smallest reduction of licenses has been observed in Western Greece (-0.1%), Eastern Macedonia, Thrace (-7.3%) and in Epirus (-8.5%).
- The Industrial Production Indicator for timber (February 2010 /February 2005) is decreased by -24.7%, and for furniture by -31.2% (February 2010 /February 2005).
- The Turnover Indicator in the furniture retail trade (February 2010/ February 2005) presented a decrease of -4.0%.

The above official data reveal that the Greek production of furniture and wood products is following a permanent recession. It should be mentioned the timber sector has confronted it long before the economic crisis because of the international competition (Industrial Production Indicator 2008 = 77.0, 2010=75.3, using 2005 as a basis of 100). During the last two years, the Greek furniture sector has been affected by both the reduction of its products' competitiveness and even more the worldwide economic crisis (Industrial Production Indicator 2008 = 99.4, 2010=68.8, using 2005 as a basis of 100). The reduction of the degree of intensity (-25.3% 2009/2008, -7.3% 2010/2009) seems to be the only positive development.

On the contrary, the sector of furniture retail trade does not appear to be particularly influenced by any factor yet. Moreover, the indicators of turnover and volume of sales of retail trade present a light increase of + 2.9% and 3.4% respectively for the period 2010/2009. The Greek market appears to be a breeding ground for imported furniture. This fact, although positive for the commercial Greek enterprises, is however not so much encouraging for the Greek economy which should keep sustainability rather on a productivity basis. Besides, this phenomenon is not only observed in the timber and furniture sectors, since the total indicator of industrial production has been decreased in one year (February 2010/February 2009) by -9.2%.

The present field research was contacted in order to investigate the effects of the economic crisis in the Greek enterprises of timber and furniture and impose solutions and recovery policies by combining the research results to the forecasts and estimations of the entrepreneurs or their executives. Moreover, the research tried to allocate the criteria of customer choice as well as new ways of forming strategies and setting targets, in order to face

the competition. Finally, the research focused on marketing strategies and the allocation of particular sector characteristics, suitable to be straightly applied in order to enable the Greek timber and furniture enterprises survive and prosper in a rather turbulent and highly uncertain future.

## **Methodology**

The data of this primary research were collected using the method of questionnaire formulation, collection and elaboration. The questionnaires were specifically structured for the aim of the present research, according to the basic principles of marketing research (Gordon and Langmaid, 1988; Tull and Hawkins, 1990; Doyle, 1998; Aaker et al. 2004), also using the essential preconditions of responsibility, transparency, reliability and the perspicacity as well as the connection with the strategy (Avlonitis, 2008). The researchers are marketing research fellows and addressed the company executives with personal interviews. The questioned sample was selected after particular control processes, when considered suitable to answer.

The research questionnaire included 29 questions in total, grouped in 2 categories. The first one included 11 questions about the general characteristics and the profile of each enterprise (name, address, legal form, year of foundation, activities, main products, occupied personnel etc). The second group included 17 questions about the effect of economic crisis on the Greek timber, furniture and joinery enterprises.

60 enterprises were randomly selected. They are all located in Greece and their owners or executives were questioned during their presence at two International Trade Shows in Athens and during visits in the enterprises' plants. The interviews were carried out in the period of January – March 2010. The questions were structured to be short and comprehensible in order to be easily answered.

The pilot application of the questionnaire in five companies revealed the weak points of questions which were further elaborated and led to its improved final form (Dillman, 2000).

The data were processed and analyzed with the special statistical program SPSSWIN ver 17.0. The analysis includes Frequencies, descriptive statistics (Descriptives) and Crosstabs, controls of independence among all the variables with the X2 criterion, correlation analysis and analysis of variance (t-test) (Norusis, 2007; Howitt and Cramer, 2003).

### **The profile of the sector enterprises**

Most enterprises (55.0%) are placed in the region of Athens and state the trade of domestic furniture, kitchen and office furniture, products of timber or wooden frames as their exclusive activity at a percentage of 48.3%, while the rest 51.6% are engaged in both production and trade.

Regarding the type of legal form of enterprises that participated in the present research, the largest percentage (43.3 %) are individual enterprises followed by General Partnerships (GPs) (35.0%), Societe Anonyme (SAs) (10.0%), Limited Liability Companies (Ltds) (8.3%) and Commercial and Industrial Societe Anonyme (1.7%).

The mean of enterprises occupies about 22.5 individuals. The 80.0% are micro enterprises (less than 10 employees), 15.0%, are small ones (10-50 individuals) and a 3.3% occupy more than 50 individuals.

In their majority they are mature and experienced enterprises established before 1990 at a percentage of 50.9%, while an important percentage (28.1%) have been founded during the last decade, that is to say after 2000.

Finally, regarding the annual turnover, the 89.7% of the enterprises present a turnover less than 1.000.000 €, a 5.1% 1.000.000 - 5.000.000 €, and a 5,2% above 5.000.000 €.

## Results

The main factor that influences Greek enterprises is the world economic crisis and especially the financial problems of Greece. In total the Greek enterprises share the opinion that the furniture and timber sectors have been influenced negatively at a percentage of 60% and very negatively at a percentage of 28,3%. A small percentage of 6.7% consider that the sector has been improved (Figure 1). This observation appears to be further supported by the statistical data that present an increase of the indicator of retail sales turnover by 2.9% during last year. This positive attitude is only developed by furniture retail enterprises that present a turnover which is smaller than 1.000.000 €, employ less than 10 people, no matter when they were founded.

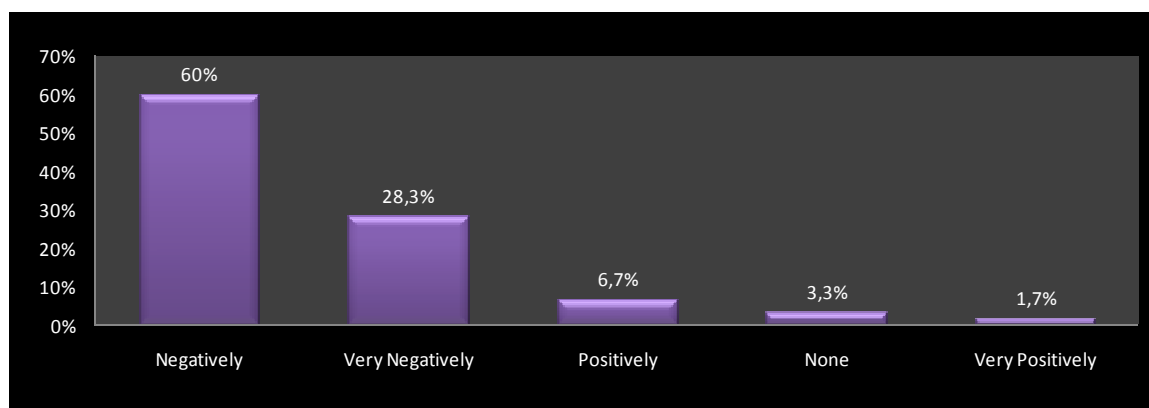


Figure 1. Degree of Impact of the recent economic crisis on wood, furniture and wooden frames sectors

The implications of the economic crisis are negative for 75% of the enterprises that participated in the research (Figure 2). A minor share of 10% that represents very small

enterprises with less than 10 employees reports a positive impact. These are mostly individuals (15,4%) and General Partnership's (9,5%). The SAs and the Industrial and Commercial SAs have been influenced negatively by the economic crisis in their total, while a 40% of Ltds have not been influenced yet (Figure 3).

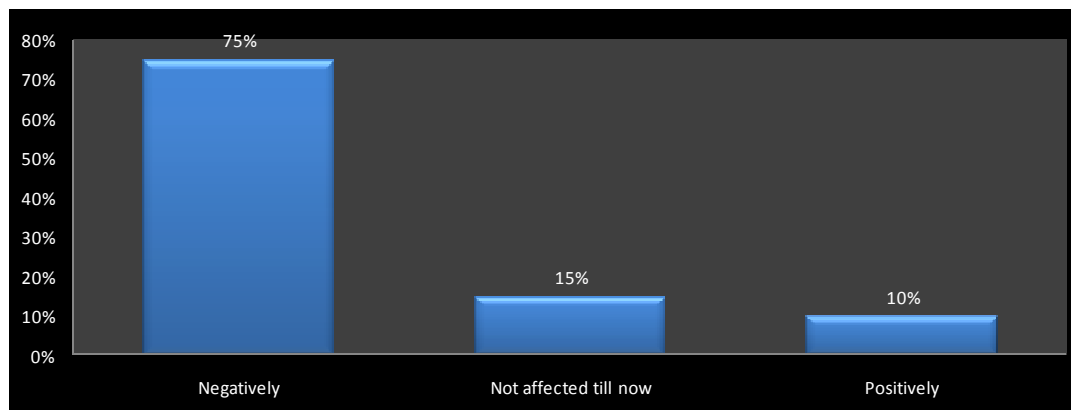


Figure 2. Degree of Impact of the recent economic crisis on wood, furniture and wooden frames enterprises

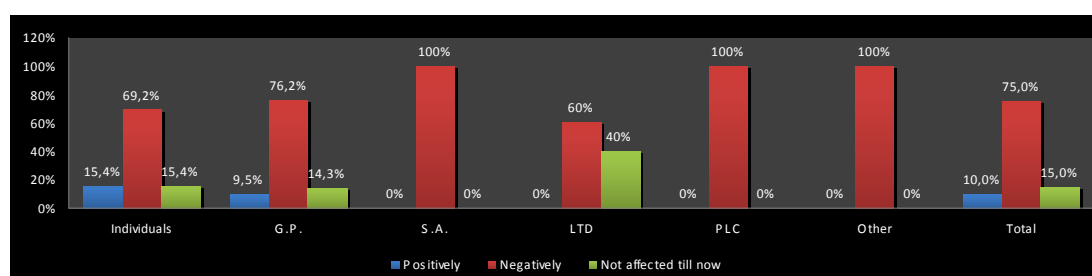


Figure 3. Degree of Impact of the recent economic crisis on wood, furniture and wooden frames enterprises in relation to their turnover

On the quantitative side, the research revealed some rather interesting results on the effects of the economic crisis; especially on sales, profits, share of market and number of customers of the questioned enterprises. The analysis revealed that a negative impact on the total performance of the enterprises resulted to a reduction of their sales by -26.5%, profits by -29.8%, number of customers by -25.0% and their share in the market by -26.5%. On the contrary, the small percentage of enterprises (around 10%) that turned some crisis threats into opportunities and were positively affected, enjoyed an increase in profits by 8.3%, in sales by 16.9%, in customers' number by 25.0% and their share of market by 16.9% (Figure 4).



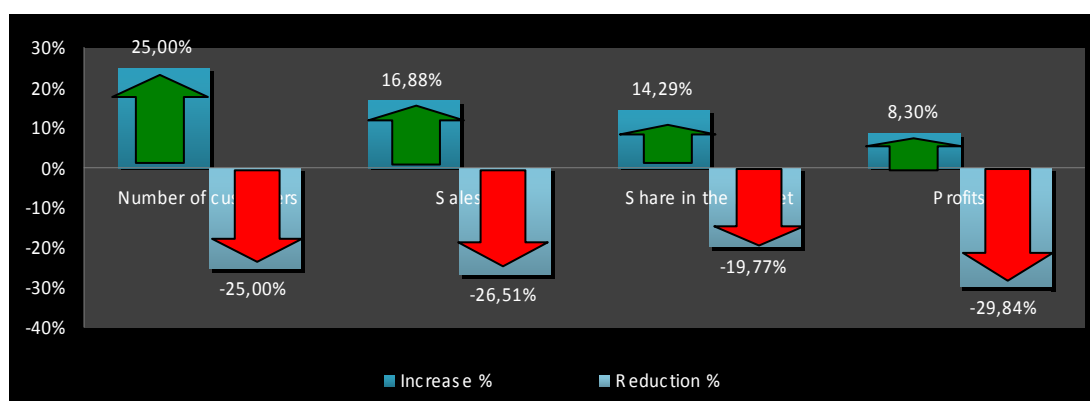


Figure 4. Degree of Impact of the recent economic crisis on the enterprises' financial indices

Table 1 presents analytically the changes of basic economic characteristics of enterprises according to their activity, as stated by the entrepreneurs. The rates of sales reduction reveal some unimportant alterations for all entrepreneurial activities and range on average, from -16.5% (office furniture) to -20.2% (domestic furniture). On the other hand, there is a quite noteworthy increase of sales, which goes up to +17.5% for the 21.4% of enterprises activated in the domestic furniture. These are mainly commercial enterprises.

As regards profits and losses, the timber sector has been less influenced since it presents the smaller rate of reduction (-13.8%) compared to the other sectors. On the other hand, the rate of profits reduction of the negatively influenced enterprises was rather discouraging (-34.7%).

The share of market varies also considerably depending on the activities of the sector enterprises. The timber sector has suffered the smallest losses (-2.1%) while the domestic furniture the biggest ones (-16.4%).

Finally, there was a remarkable case of a single enterprise of the wooden frames sector which succeeded in increasing the number of customers by 80% and deserves to be studied further as a case of success.

Sub-sector	Type of effect	Changes %			
		Sales	Profits	Share of market	Number of customers
Domestic furniture	Mean	-20,2%	-27,1%	-16,4%	-19,0%
	Negatively	-27,1% (22)*	-31,4% (24)	-20,4% (12)	-28,1% (21)
	Positively	+17,5% (6)	+7,2% (3)	+7,5% (2)	+28,8% (4)
Kitchen Furniture	Mean	-20,0%	-25,3%	-0,5%	-22,0%
	Negatively	-29,0% (15)	-34,7% (15)	-18,0% (5)	-30,0% (12)
	Positively	+13,7% (4)	+10,0% (4)	+17,05% (5)	+10,0% (3)
Office Furniture	Mean	-16,5%	-19,6%	-7,2%	-16,9%
	Negatively	-25,0% (10)	-28,0% (10)	-20,0% (5)	-21,8% (11)
	Positively	+11,7% (3)	+8,3% (3)	+8,8% (4)	+10,0% (2)
Timber, products of timber	Mean	-20,0%	-13,8%	-2,5%	-13,8%
	Negatively	-27,5% (4)	-20,0% (3)	-12,5% (2)	-13,8% (4)
	Positively	+10,0% (1)	+5,0% (1)	+7,5% (2)	-
Frames	Mean	-17,8%	-21,0%	-15,0%	-5,0%
	Negatively	-21,3% (8)	-23,8% (8)	-19,2% (6)	-15,6% (8)
	Positively	+10,0% (1)	+1,5% (1)	+10,0% (1)	+80,0% (1)

Table 1. Changes of sales, profits, share of market, number of customers per sub-sector for the Greek furniture and timber enterprises

\* The number of answers

Referring to the prospective developments of the sector, there was a positive mood of optimism detected in the forecasts of the enterprises for next year. The 38.3% of these estimates a further recession (the 8.3% expect considerable sector deterioration). Almost the 1/3 of them reckons that the situation will not be altered and will remain stable. On the contrary, the 23.3% of them forecast a small improvement (Figure 5). Big enterprises with an annual turnover over 50.000.000 € appear to be more pessimistic in total, while the more optimistic ones are the older enterprises, established before 1980. The 41.2% of them expect a slight improvement of their economic situation, mainly due to their experience.

The above forecasts, for the total of the enterprises that participated in this research, reveal an estimation of a reduction of sales by -19.7%, profits by -24.3%, number of customers -19.2%

and share of market -11.6% (Table 2). Variations at sub-sector level are expected by the enterprises of timber production and trading (-6.3% profits reduction), the kitchen furniture producers (-0.5% market share reduction), and the enterprises of wooden frames which forecast a reduction of the number of their customers close to -5%. Still, the biggest reduction of customer number is expected by the kitchen furniture producers.

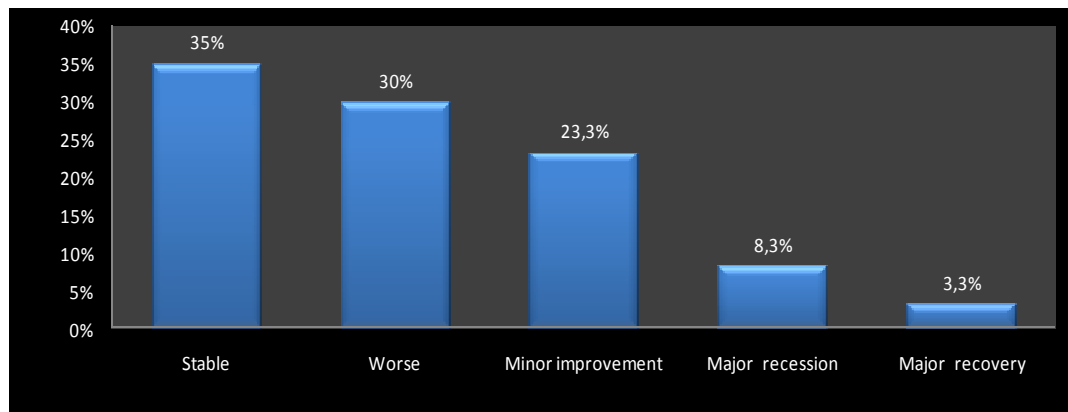


Figure 5. Configuration of the sector situation in the immediate upcoming 12month

Sub - sector	Changes % on average			
	Sales	Profits	Share of market	Number of customers
TOTAL OF ENTERPRISES	-19.7% (23.6)	-24.3% (24.2)	-11.6% (20.5)	-19.2% (26.2)
Domestic furniture	-17.5% (27.1)	-27.1% (24.1)	-16.4% (17.5)	-19.0% (32.3)
Kitchen Furniture	-20.0% (24.2)	-25.3% (26.1)	-0.5% (23.4)	-22.0% (24.8)
Office Furniture	-16.5% (19.8)	-19.6% (19.3)	-7.2% (16.8)	-16.9% (14.2)
Timber, products of timber	-20.0% (20.9)	-6.3% (23.6)	-2.5% (11.9)	-13.8% (4.8)
Frames	-17.8% (20.3)	-20.9% (16.6)	-15.0% (18.0)	-5.0% (33.3)

Table 2. Forecasts of sales, profits, share of market, number of customers by sub sector for the Greek furniture and timber enterprises

\* Std. Deviation

### Measures and policies to recover from the crisis

The reduction of product prices (by a 73.3% of the enterprises) and consequently the reduction of total expenses (by a 46.7%) were named as the best ways adopted by the questioned enterprises in order to tackle the economic crisis and move forward (Figure 6). It should be underlined that especially the furniture sector enjoyed till now big profit margins, which in certain cases exceeded even a 200% percentage. Consequently, the reduction of

product prices is an “honest” policy which will result to certain profits for the consumers. However, it will inevitably alter the “luxury” level of the existing entrepreneurial status of the sector companies. The problem lies with those companies that used to work under sensible prices, striving for their survival and growth. These enterprises do not have the ability to lower the prices of their products further and thus they try to face the crisis with more publicity of their products. This policy is proposed to be an effective one by many experts, although it demands a considerable increase of promotion expenses.

Some further measures taken by the sector’s enterprises, are new forms of collaboration with both suppliers and customers at a percentage of 65.0% of enterprises, while there are some thoughts on the possibility of mergers with bigger companies (5.0% of the companies) or acquisitions (being bought out – 1.7%).

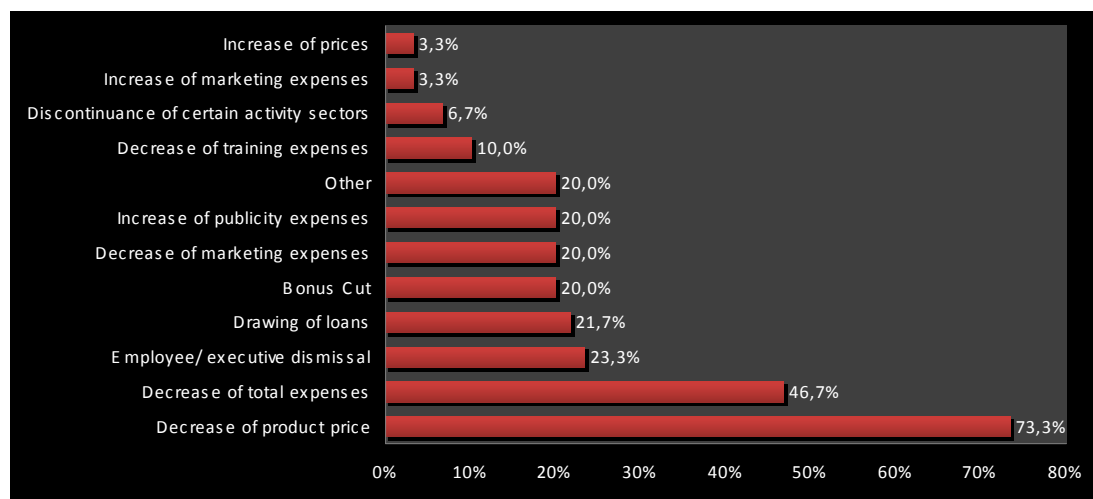


Figure 6. Policies to tackle company problems emerging from the economic crisis

The economic crisis has led to a reformation of short – medium and long term entrepreneurial objectives, according to the studied companies. Figure 7 shows that most enterprises maintain their short-term objectives at a percentage of 40.0%, since they are rather cautious about the developments of Greek economy, while the 36.7% of them have already changed them. On the contrary, the biggest percentage of the companies (40.0%) has already altered their medium-term objectives (2-5 years), while the 1/3 of enterprises has changed their long-term ones (more from 5 years). The enterprises that are activated in the timber sector have already reformed their short-term objectives at a percentage of 50.0% and the medium-term at a percentage of 66.7% while they have not made particular changes to the long-term ones (16.7%). The sector of wooden frames remains the most cautious and hesitant, since there is only a 30% which dared some short-term changes.

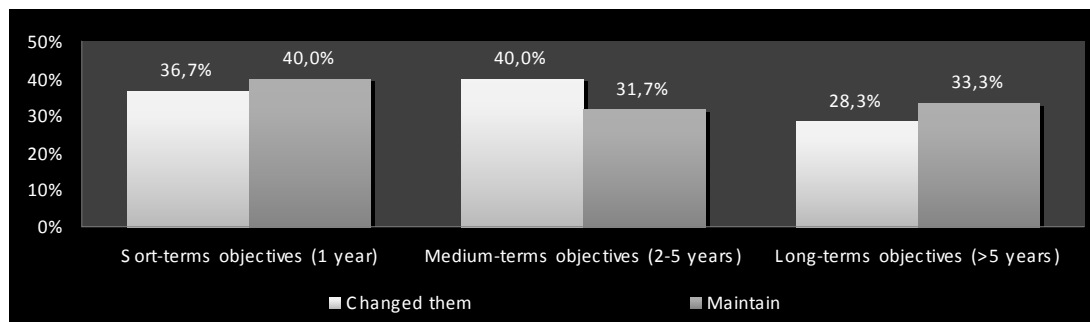


Figure 7. Change or intention of change of the entrepreneurial objectives

The main marketing strategies used by the questioned enterprises are the quality dimension (production and disposal of products of higher quality), customer satisfaction (their focus in the better satisfaction of customers' expectations) and price reduction (Figure 8). Innovation does not seem to comprise a strategic asset, perhaps due to the small size of the questioned enterprises. This is further proved by the X2 control, where the factor of innovation application appears to relate itself statistically significantly with the annual turnover of enterprises (Pearson  $X^2 = 9.000$ , Cramer's  $V = 0.548$  for sig. level > 90%, Approx. Sig = 0.061).

The factor of lower product price appears to relate itself statistically significantly with the activity of these enterprises (Pearson  $X^2 = 11.345$ , Cramer's  $V = 0.392$  for sig. level > 95%, Approx. Sig = 0.023, kendall's tau-c = -0.302). This leads to the conclusion that for trade companies the reduction of price comprises their main strategy, while manufacturers engage this strategy to a much smaller degree. This is partly explained by the fact that producers have already tried hard to reduce the production and operation costs, because of the strong competition from the big multinational enterprises of the sector and thus they do not appear to have other margins.

Companies with less than 10 employees prefer to invest in Quality more than those with a higher number of personnel (Pearson  $X^2 = 9.151$ , Cramer's  $V = 0.412$  for sig. level > 90% Approx. Sig = 0.057, kendall's tau-c = -0.041). This factor is also related statistically significantly with the legal form of enterprises (Pearson  $X^2 = 11.028$ , Cramer's  $V = 0.429$  for sig. level > 90% Approx. Sig = 0.088, kendall's tau-c = -0.027). The individual and G.P. enterprises focus in the quality more than S.As.

The share of market desired by the enterprises of the research appears to be related statistically significantly with the groups of companies formed with regard to the year of foundation. The newer companies (after 2000) consider the share increase as their basic strategy (Pearson  $X^2 = 11.667$ , Cramer's  $V = 0.764$  for sig. level > 90%, Approx. Sig = 0.070, kendall's tau-c = -0.510).

There is a significant statistical relation between the continuous improvement of products and the age-groups, with the oldest companies (before 2000) to consider it as their basic strategy (Pearson  $X^2 = 14.454$ , Cramer's  $V = 0.617$  for sig. level > 95%, Approx. Sig = 0.025, Kendall's tau-c = 0.482).

The cross-correlation analysis using the Pearson correlation criterion (Table 3) with regard to the basic marketing strategies applied by Greek wood and furniture enterprises as measures against the economic crisis, showed that:

- The more the timber and furniture enterprises invest in quality, the bigger the share they acquire in the market (Pearson correlation coefficient = 1.000, Correlation is significant at the 0.01 level (2-tailed)).
- The greater the emphasis on quality, the higher the products' prices (Pearson correlation coefficient = -.536, Correlation is significant at the 0.05 level (2-tailed)).

Variables	t-test	Pearson correlation coefficients								
		1	2	3	4	5	6	7	8	9
Higher quality	13.614	1.000								
Better service	15.771	.183	1.000							
Lower prices	11.908	-.536*	-.312	1.000						
Higher share of market	9.000	1.00**	.500		1.000					
Custom - tailored	7.746	-.577				1.000				
Continuous improvement of products	9.831	.114	-.302	-.273			1.000			
Innovations in products	10.993	-.048	-.0046	-.371	.577	-.447	.870	1.000		
Entry in markets with considerable growth	7.347			-.632	.500		.204		1.000	
In favour-achievement of customers' expectations	5.284	.500		.167						1.000

Table 3: Pearson of correlation coefficients of main marketing strategies against economic crisis

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

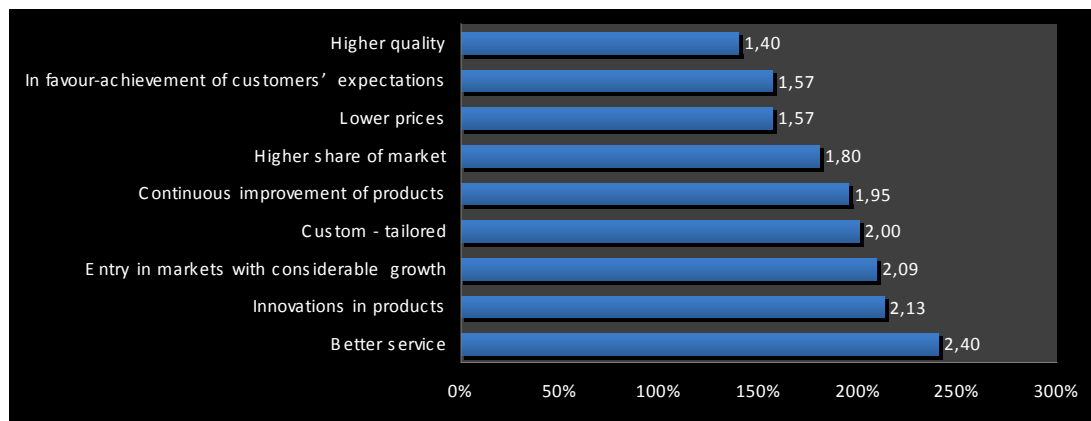


Figure 8. Main marketing strategies (1=most important factor)

Internal factors of the questioned enterprises are evaluated as the only solution to economic crisis and the only ones which can alter the existing negative effects of recession. They refer to resources development and mainly actions that the enterprises alone have to undertake. There was further evidence that these actions should be supported by appropriate governmental guidance but no other external factor seemed to be important. Control H 2 did not prove any statistically significant relation with the particular characteristics of enterprises. Of particular interest is the fact that the questioned enterprises are able to criticize their current position in the entrepreneurial landscape and form their strategy based on their own strengths, aiming at overcoming the crisis and sustain a growth process.

The cost reductions along the whole value chain, as well as the price reduction in combination with differentiation and operational excellence comprise the most effective ways in order to regain competitiveness in the timber and furniture world market. Control X2 did not show any statistically important relation between the ways of recovery and the characteristics of the enterprises in question (size, legal form, year of foundation etc).

The research also investigated the new requirements of customers and in particular those characteristics of timber and furniture products that will affect positively the final buying decision in the crisis and meta - crisis period. The questioned enterprises consider that the main focus will be in the low price of products as well as the level of confidence that exists among customers and companies (Figure 9).

Control X2 showed that high quality of furniture and timber products regarded as a factor of customers' choice, relates in a statistically significant way with the companies' turnover (Pearson X2 = 34.192, Cramer's V = 0.781 for sig. level>99%, Approx. Sig = 0.001, kendall's tau-c = -0.184) and with the number of occupied personnel (Pearson X2 = 45.928, Cramer's V = 0.758 for sig. level>99%, Approx. Sig = 0.001, kendall's tau-c = 0.135). Actually, this factor is considered as the most important one by micro enterprises (annual turnover < 1.000.000 € and employment of less 10 individuals).

Brand name is statistically related with the sub – sector where the enterprise belongs (Pearson  $X^2 = 22.838$ , Cramer's  $V = 0.571$  for sig. level >95%, Approx. Sig = 0.011, kendall's tau-c = 0.179). This factor is mainly vital for commercial enterprises since they sell brand name products.

Environmental protection is statistically related with the number of occupied personnel (Pearson  $X^2 = 12.522$ , Cramer's  $V = 0.436$  for sig. level >90%, Approx. Sig = 0.051), that is to say it is considered as important by medium enterprises that occupy more from 50 individuals.

The fact that all 7 factors, presented in Figure 9, influence one another, led to a cross-correlation analysis with the Pearson correlation criterion. The results are shown in Table 5 and generally conclude that:

- The lower the price of a product, the smaller the confidence towards the enterprise (Pearson correlation coefficient = -0.615, Correlation is significant at the 0.01 level (2-tailed)).
- The bigger the innovativeness of a product, the smaller the company's service towards the customer (Pearson correlation coefficient = -0.457, Correlation is significant at the 0.01 level (2-tailed)).
- The more innovative the product, the higher its price (Pearson correlation coefficient = -0.375, Correlation is significant at the 0.05 level (2-tailed)).

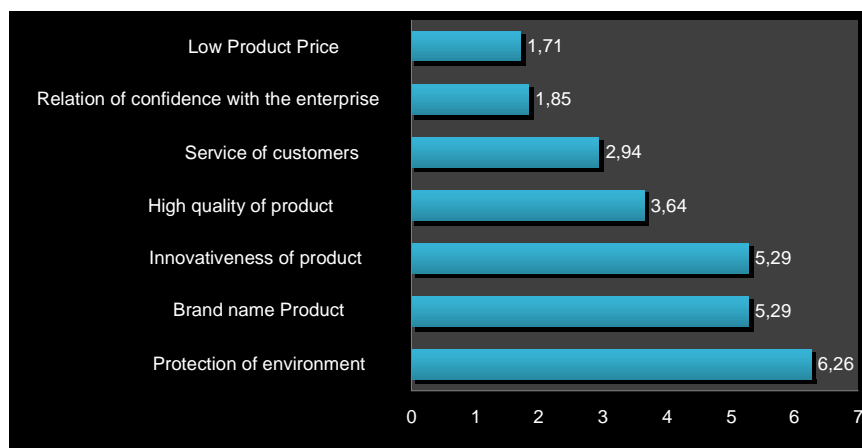


Figure 9. Order of factors that will affect the buying decision (1=most important factor)



Variables	t-test	Pearson correlation coefficients						
		1	2	3	4	5	6	7
Low product price	12.139	1.000						
Service of customers	18.974	.216	1.000					
Relation of confidence with the enterprise	14.799	-.615**	-.192	1.000				
High quality of product	16.939	-.284	-.231	-.107	1.000			
Brand name product	22.946	-.269	-.247	.113	.275	1.000		
Innovativeness of product	25.012	-.375*	-.457**	.039	.070	-.172	1.000	
Protection of environment	40.674	.050	.039	-.026	-.259	-.603**	.135	1.000

**Table 5:** Pearson correlation coefficients of the main choice criteria

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

### General aspects

Since marketing is about value, the research tried to detect the better values engaged by the questioned companies, either producers or only retailers. These are found to be mainly the combination of price, product reliability and convenient service that 86.7% of the companies claim to offer, as well as the achievement of the finest integrated custom-tailored solutions offered by the 73.3% of the companies (Table 6).

In order to distinguish those features that lead to success and growth, the opinions of the entrepreneurs or their executives were asked and led to the following ones listed in declining line: The focus of all departments and employees on customer satisfaction (nourished by market observation), the existence of a good labor climate in and within departments (i.e. marketing - R&D -production, marketing - sales - customer service) and the choice of markets and target groups which exploit the specific competitive advantages of the company, or /and the avoidance of markets where it detects weaknesses (Table 7).

a/a	Values	Percentage %	N
1	The combination of price, product reliability and convenient service that we offer is invincible	86,7	52
2	We offer the finest integrated custom-tailored solutions	73,3	44
3	We help you to define your problem, determine the best solution and operate its application	51,7	31
4	We provide the best products	25,0	15
5	Our products have the higher output for our customers	23,4	14
6	No one supplies customers with a lower total cost than us	13,3	8

**Table 6.** Order of values of excellence for the products of Greek furniture and timber enterprises

Control  $X^2$  revealed a statistically important relation between:

a) Success derived from the company's ability to "build" a name and an image with the legal form of the enterprise (Pearson  $X^2 = 13.388$ , Cramer's  $V = 0.489$  for sig. level >90%, Approx. Sig = 0.099, kendall's tau-c = -0.256). Actually SAs and LTDs rate the factor as "most important".

b) Success derived by the company's ability to continuously "build on" the satisfaction and loyalty of its customers, with the number of occupied personnel (Pearson  $X^2 = 9.969$ , Cramer's  $V = 0.476$  for sig. level >95%, Approx. Sig = 0.041, kendall's tau-c = -0.322). Actually medium sized companies, in contrast to micro enterprises, rate the factor as "most important".

c) Success derived from the company's ability to be flexible in the satisfaction of different requirements of customers, with the year of foundation (Pearson  $X^2 = 13.150$ , Cramer's  $V = 0.446$  for sig. level >95%, Approx. Sig = 0.041, kendall's tau-c = -0.300). The newest the companies, the most important they rate this factor.

$\alpha/\alpha$	Features	Importance	St.dev	N
1	The focus of all departments and employees on customer satisfaction and market	1,53	0,74	15
2	A good labor climate between marketing, R&D and production.	1,75	1,04	8
3	A good labor climate between marketing, sales and service of customer.	1,75	0,79	20
4	The choice of markets and target groups which exploit the specific competitive advantages of the company or /and the avoidance of markets where it detects weaknesses.	1,85	0,91	27
5	The enterprise manages a Value Chain System in collaboration with powerful supplies and distributors.	1,92	0,67	12
6	The company continuously "builds on" the satisfaction and loyalty of its customers.	2,00	0,87	25
7	The company cultivates the ability "to build" a name and an image.	2,00	0,86	28
8	The company's flexible in the satisfaction of different requirements of customers	2,00	0,78	34
9	The enterprise applies a system of motives planned to leads to certain in-house behavior.	2,38	0,74	8

Table 7. The main features of a successful timber and furniture company in Greece (scale from 1-3 with 1 to be the more important)

The questionnaire ended by asking about the usefulness of the present research and its success in supporting the Greek timber and furniture sector to tackle ways in order to recover the economic crisis. A 95% commented positively on its contribution.

## Conclusions –Proposals

In their big majority the Greek furniture and timber enterprises have been affected by the recent economic crisis negatively to very negatively. A very small percentage of these have presented some improvement.

The forecasts for the economic situation of the sector reveal a further recession for next year. A percentage that does not reach even a 25% of the total appears to be quite optimistic about the future, believing in a reversal of the situation and an improvement of sales and profits.

The reduction of sales amounted about 27% on average and the reduction of profits 30%, while their share in the market was decreased by 20%. On the contrary, the enterprises that exploited the crisis – mainly traders - increased their profits by 8% on average as well as their share in the market by 14% roughly.

The forecasts for the forthcoming year refer to even worse reductions, i.e. -30% in sales, -32% in profits, -24% in customers and -24% in the share of market. A minority of enterprises that forecast some recovery expect an increase of 14% in their sales and 12% in their profits. The enterprises of timber production and trade forecast smaller reductions i.e. about -6.3% in profits, and kitchen furniture companies a -0.5% in market share.

Internal factors such as resources development and policies that the enterprises alone have to built and realize are evaluated as the only solution to economic crisis and the only ones which can alter the existing negative effects of recession. They should also be supported by appropriate governmental guidance.

The more important criteria for customers are the low price and the combination of confidence and loyalty to the enterprise, followed by customers' service and the high quality of products.

Reduction of product prices, and consequently reduction of total expenses such as marketing and personnel / executive costs, contracting of loans, bonus -cut, as well as the increased emphasis on publicity are considered to be the best direct ways adopted by the Greek timber and furniture enterprises in order to tackle the economic crisis and move forward.

Respectively their future strategy is focused mainly in new collaborations or even in no action, expecting the developments in Greek economy.

The long-term objectives remained or will remain the same for the 1/3 of the questioned enterprises, while a somewhat smaller percentage (28%) declares that they will change or have already changed them. The medium-term objectives remained or will remain the same for a percentage of 32%, while a 40% declared that they have changed or will soon change

them. Finally, the short-term objectives have not changed by the 40% of the enterprises while a 36% do not intend to make any changes.

Basic marketing strategies applied by the enterprises of timber and furniture focus mainly on high quality and low prices, a bigger share of market, a culture of continuous improvement, product innovation, better customer service and entry in markets with big growth potential. Innovativeness is related statistically in a significant way with the annual turnover, while commercial enterprises turn to price reductions, a strategy not easily adopted by manufacturers. The statistical analysis of the basic marketing strategies revealed that the more the enterprises of timber and furniture invest in quality, the higher share they acquire in the market.

Finally, it is expected that during the period of economic crisis the customers' main buying criteria will be low prices and their trust and loyalty to certain Greek timber and furniture enterprises.

The contribution and usefulness of the present research and its success in supporting the Greek timber and furniture sector to tackle ways in order to recover the economic crisis was positively commented by a 95% of the questioned enterprises. The data analysis and elaboration in combination with literature and the theory of crisis management led to the formation of the following 17 general principles:

- A strong focus on profitable entrepreneurial activities
- Redefinition of strategic suppliers in a win-win relation (reasonable requirements, negotiation, attendance in the vision of growth)
- Emphasis in innovation and technology know-how
- Emphasis on personnel selection
- A good understanding of production costs and profit margins
- Considerable reduction of production costs
- A further improvement and elaboration of entrepreneurial skills
- Innovative ways of collaboration
- Differentiation strategies
- Maximum effectiveness of the web site
- Measurement of efficiency using established indicators
- Special policies for non active customers
- Realistic products pricing
- IT and corporate support wherever possible (e.g. accounts, wages, economic reports)

- Strategies for market growth
- Well defined personnel policies which enhance low skilled employee turn over
- Establishment of formal routines for strategy reconfiguration and redefinition

The above principles are accomplished with 12 simple "secrets" which cost practically nothing but have been proved very effective when applied:

- Positive thought and enthusiasm
- Self-confidence
- Emotional distance of bad news
- Communication of good news.
- Advice to customers. "A very well served customer could have been of bigger value than a publicity of 10.000 \$ value" Jim Rohn
- Bigger emphasis on marketing and especially publicity (there is no way for a company to grow, unless it communicates its message)
- Supply of excellent services
- Value for the customer
- Search for additional income resources
- Development of e-business
- Smile!!!
- Development of knowledge intensive entrepreneurship through constant learning, adapting to modern ways of business activities with zest and personal commitment!!!

An important limitation is the fact that the sample was too small and a single case and that although selected by current literature, the final list of questions was selective and filtered after the initial pilot research. Thus, we have engaged the most popular choices – but not all of them. Despite these limitations, the findings and suggestions are useful, given the absence of proposals for encounter the economic problems of Greek furniture enterprises.

The research could be further expanded at international level, in order to collect comparative data on the effects of the economic crisis on timber and furniture sector and the ways the enterprises in other countries have used to tackle the problems caused by it. The results could thus enable the formation of suitable alternative solutions and best practices which in turn can constitute policies and drivers of survival and growth for the enterprises of timber and furniture. The application of benchmarking could also support the creation of

forecasting models used in crisis management. Furthermore, the present research could be used as a model research for other productive and commercial sectors of Greece or other European countries.

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## THE RELATIONSHIP BETWEEN HUMAN RESOURCE EMPOWERMENT AND ORGANIZATIONAL PERFORMANCE IN GREEK SPORT FEDERATIONS

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### Abstract

This study examined the extent to which empowerment is applied to Greek Sport Federations, and the relationship between empowerment and organizational performance. It also identifies the differences among the divided subgroups (federations) as shown by two variables (Government Funding, and Olympic distinctions).

The study was a quantitative design using descriptive statistics and one way analysis of variance to answer the research questions. A sample of 61 managerial and technical directors of 20 Greek Sport Federations were surveyed using a 30-item management style survey, developed by Vogt & Murrell, (1990).

The results of this study supported that there is a significant difference among the aforementioned groups/federations (as shown by two variables), and the key factors of empowerment. Limitations of the present study and suggestions for further research are presented.

This study is useful in extending the concept of empowerment to Greek sport sector. The study will be useful in helping sport directors to their further understanding of the empowerment process in their respective sport organizations.

**Keywords** Empowerment, organizational performance, sport organizations, sport federations.

### Introduction

Nowadays sport organizations develop and implement strategies in a globalized economic, social and technological environment. Managers of sport organizations all over the world must respond effectively to the changes that take place in their political, social, economic,



competitive, technological and legislative environments. Many authors retain that for a manager to be effective, he or she must be a good manager of people because it is them who make up an organization and make everything work (Tosi, Rizzo and Carroll, 1986; Lipiec, 2001; Marken, 2000; Morton, 1996; Slack, 1997). Because of that, human resource management and more specifically empowerment of human resources in the particular working and social environment of each organization has, greater importance than the management of other resources and requires a meticulous attention. As a matter of fact human resources represent an important capital, which should be managed effectively in order to constitute for the organization a source of competitive advantage (Bowen and Lawler, 1992).

Empowerment refers to a change strategy with the objective of improving both the individual's and the organization's ability to act and to operate more effectively in an extremely competitive environment. Empowerment, on the one hand, has been described as a means to enable employees to make decisions and accomplish their work in meaningful ways, and on the other hand, as a personal phenomenon where individuals take responsibility for their own actions. Moreover, empowerment has been defined as helping employees take personal ownership of their jobs (Byham, & Cox, 1988), as well as the passing of decision making and responsibility from managers to employees. Basically, it is the process of encouraging and rewarding employee initiative and imagination. A basic prerequisite is that the members of the organization are willing and capable of assuming more power, make good decisions and perform them effectively.

In literature as well as in practice, empowerment is most often considered to be a viable means to increase the effectiveness of an organization, as well as to improve the quality of working life for employees (Manz, 1992; Wellins, Byham, & Wilson, 1991). Across the private, public, and voluntary sectors, empowering staff is widely supported as a means to improve the efficiency and effectiveness of organizations (Leslie, Holzhalb, & Holland 1998).

Empowerment is a topic that appears frequently in human resource, business, and management literature but infrequently in sport management literature. Managerial interest in employee empowerment in the sport organizations has generally been associated with concern to gain competitive advantage through improvements in organizational performance. Empirical research on organizational performance has been conducted within the services sectors in various countries. However, research regarding empowerment in the sport sector is still limited.

The purpose of this study was (a) to examine the extent to which employee empowerment is applied to Greek Sport Federations and (b) to investigate if differences exist among the divided subgroups (federations) as shown by two variables (performance indicators of Sport Federations): (a) funding from government, and (b) distinctions in the Olympic Games, and the key factors of empowerment (Management – information/communication system skills, Decision-making and action-taking skills, Project-planning, organizing, and system-

integration skills, System-evaluation and internal-control skills, Leadership, motivation, and reward-systems skills, Selection, placement, and development of people skills, and Total for all managerial functions). The following research questions were addressed in this study:

- To what extent is the empowerment process being used in Greek Sport Federations?
- Is there a significant difference among the most wealthy federations, wealthy federations and less wealthy federations, as shown by government funding, in terms of the key factors of empowerment?
- Is there a significant difference among the most successful federations, successful federations and less successful federations, as shown by Olympic distinctions, in terms of the key factors of empowerment?

## **Literature review**

Human resource development through empowering employees and establishing appropriate compensation and recognition systems have affected positively a firm's financial performance, and has appeared to be the most critical competency in business environment in China (Ling, 2000). Furthermore, research has suggested that empowerment practices (employee autonomy, access to information and resources and involvement practices) when simultaneously implemented in a holistic and planned manner have a positive effect on employee well being (job satisfaction and employee morale), productivity, performance and service quality in banking sector in Australia (Geralis and Terziovski 2003).

Ashness and Lashley (1995) examined employee empowerment (focused on the managerial intentions of empowerment) in Harvester Restaurants. The results pointed out that overall organizational performance has improved. There has been a sale increase of 7 per cent, team member turnover had fallen by 19 per cent, wages costs were marginally reduced, from 24 per cent to 23.2 per cent and administration costs had fallen by 41 per cent and labour turnover was particularly low at about 10 per cent. An increase in understanding and commitment to the business objectives throughout the organization was also noticed. Unit management also reported a low level of guest complaints, and problems were sorted out more quickly. Moreover the empowerment of employees in service organizations has been shown to produce positive outcomes in the form of increased job satisfaction and self-efficacy.

In their study of 279 hotel units, Hartline and Ferrell (1996) found that empowerment, under the appropriate conditions, increases job satisfaction and service quality. It seems logical and makes instinctive sense that allowing customer-contact employees to use their discretion in serving customers could have many positive influences on their responses and the service encounter. From an employee's perspective, feelings of empowerment should

provide employees with the sense of control that is needed to make the necessary changes for service quality improvements.

Furthermore, Littrell (2003) in his case study, "employee empowerment in China" examined the attitudes toward employee empowerment by staff and management in a group of hotels in China, where the general opinion of management theorists was that empowerment is not a workable concept in a Chinese organization. However, results of the study indicated a positive attitude toward employee empowerment on the part of supervisor-level employees, with a lower, but still positive opinion of the practice exhibited by higher-level managers. More than half of the respondents indicated that they were empowered in their ability to do their work as they see fit (57%), and Chinese managers believed that the ideal leader should be more tolerant of freedom.

Thomas (2001) examined the perceptions and symbolic meanings constructed by African American sports managers and how they make use of power and empowerment, via a phenomenological in-depth interview study. Five themes came into surface: (a) The participants' perceptions of power (The Need for the Control of the Human and Natural Resources), (b) The participants' perceptions of empowerment (Sharing Power: Providing Leadership Opportunities through Decision-making), (c) The participants' perception of the influence of race (Acknowledging Race and the Actions Needed to Break the Color Barriers), (d) The participants' perception of the sports management setting (Making Your Way in a Hostile Environment), and (e) The steps to move from dialogue to implementation (Getting It Done: Moving from Strategies to Implementation). It was shown that although African Americans male sports managers have varying perceptions of the social construct of power, the psychological construct of empowerment, and the influence of race they agree on the use of power and empowerment as a vital management vehicle for leadership development.

Inglis, Danylchuk, & Pastore (2000), in their research explored the multiple realities of women's work experiences in coaching and athletic management positions. Eleven women who had previously coached or directed women's athletics programs were interviewed using a semi-structured approach. The work experiences show what problems women met with at work but also the way organizations can be empowering and the role empowered women can play. It is believed that the individual search for empowerment should be diverse and at the same time not forget that if we are to improve the work environment for women important and systemic changes should be made. Furthermore, Freysinger, and Bedini (1994) proposed that educators in leisure and recreation studies ought to promote empowerment in the classroom, by using ways to facilitate the empowerment of students, including biological, psychological, and sociocultural processes of empowerment as related to race, gender, and disability.

## Method

### Sampling

With regard to Greek Sport Federations the original sampling frame consisted of 78 managerial and technical directors of 26 Greek Sport Federations. Responses were received from 61 managerial and technical directors of 20 Greek Sport Federations with a 77 % response rate. According to the findings of this research, 24 (39.3 %) of the participants were females and 37 (60.7 %) were males with a mean age of 43.9 ( $sd = 8.764$ ); the educational level of the participants was grouped into 3 categories: 24 (39.3 %) had elementary/high school education 31 (50.8 %) had university level education and 6 (9.8 %) had post-graduate level education. 44 (72.1 %) were managerial directors and 17 (27.9 %) were technical directors. All had full-time working experience.

### Survey Instrument

The empowerment construct, consisted of 30 questions (developed by Vogt & Murrell, 1990), and demographic characteristics. This particular part provided information on how managerial and technical directors assess themselves in relation to the empowerment. The survey instrument included six units based on the following six key factors of empowerment: (a) "Management – information / communication system skills", (b) "Decision-making and action-taking skills", (c) "Project-planning, organizing, and system-integration skills", (d) "System-evaluation and internal-control skills", (e) "Leadership, motivation, and reward-systems skills", and (f) "Selection, placement, and development of people skills". The questions were answered using a five point Scale. Each point of the scale represented different managerial styles (deriving from the three basic managerial styles, which are the "totally empowering style" of management, the "empowering and less controlling style" of management, and the "controlling style" of management) and depicted the respondent's behaviour and actions. In the first case ("totally empowering style" of management) the manager has a managerial style that reflects the manager who creates and shares power. In the second case ("empowering and less controlling style" of management) the manager is more empowering than controlling, and in the third case ("controlling style" of management), the manager is concerned with control or seldom shares, creates or empowers subordinates. The reliability of the survey instrument was assessed through Cronbach's Coefficient Alpha ( $\alpha = .85$ ).

The organizational performance indicators of sport federations consisted of items indicative of performance outcomes of Greek sport federations during the last five years (from 2003 to 2007). The performance indicators included: (a) average of funding from government in the previous 5 years, and (b) distinctions in the Olympic Games (2004). The first performance indicator concentrated on financial measures based on the Secretariat general of sports' annual reports; while the other one was an actual performance measure which was easily obtainable through the Sport Federations' statistics and annual reports.

## Procedure

The data collection was accomplished through structured interviews. The structured interviews took place at each sport federation's premises, after their consent, via appointments that were scheduled by phone. The sequence of events concerning the whole procedure was realized as follows: managerial and technical directors of the foresaid sport federations were informed of the research and their consent was requested in order to realise the structured interviews. After their consent was given, appointments were scheduled at specific dates with each and every one of the directors of sport federations. Dates were rescheduled whenever requested due to heavy workload. The structured interviews lasted for approximately 60 minutes and clarifications were given to subjects when asked for. Additionally, another 60 minutes were required with each interviewee for completion of the organizational performance construct items. This was either done at the same date as the structured interview, or at a separately arranged date. That was convenient for the interviewee to complete the data requested.

## Data analysis

The study was a quantitative design and the analysis was exploratory in nature. Descriptive statistics were used to examine the purpose of the study, and more specifically, to answer the first research question, while one way analysis of variance was used to answer the second and third research question.

The participatory sport federations were divided into three groups based on two variables: (a) Government funding, and (b) Olympic distinctions.

For the first variable, government funding, the divided groups were three: (a) most wealthy federations (n=7), (b) wealthy federations (n=6) and less wealthy federations (n=7), shown in table 1.

<i>Government Funding</i>	<i>n</i>	<i>Amount of funding in €</i>
<i>Most Wealthy Federations</i>	7	$\geq 2,706,000$
<i>Wealthy Federations</i>	6	1,160,000 – 2,705,000
<i>Less Wealthy Federations</i>	7	521,158 – 1,159,000

*Table 1: Financial Criteria for Dividing Sport Federations*

For the second variable, Olympic distinctions, the divided groups were again three: (a) most successful federations (n=5), (b) successful federations (n=8), and (c) less successful federations (n=7), shown in table 2.

<i>Distinctions</i>	<i>n</i>	<i>Range of distinctions</i>
<i>Olympic Distinctions</i>		
<i>Most Successful Federations</i>	5	$\geq 4$
<i>Successful Federations</i>	8	1-3
<i>Less Successful Federations</i>	7	0

Table 2: Distinction Criteria (Olympic, World, European) for Dividing Sport Federations

The dividing points for each of the above variables were determined by a panel of experts in the field of sport management in federations and professional sports.

Descriptive statistics were used to examine the purpose of the study, and more specifically, to answer the first research question, while one way analysis of variance was used to answer the second and third research question.

## Findings

Data of the managerial and technical directors' responses were analyzed to gather information specific to the extent to which empowerment is applied to most wealthy, wealthy and less wealthy Greek Sport federations as shown by Government funding. From the analysis it is shown that the "totally empowering style" of management was not used by managerial and technical directors of most wealthy and wealthy Greek Sport Federations.

Moreover concerning the key factors of empowerment the managerial and technical directors of most wealthy Greek Sport federations used 85.7% "more empowering style and less controlling" and 14.3% "controlling style" in the key factors: System-evaluation and internal-control skills and Selection, placement, and development of people skills, followed by Management-information /communication system skills, Decision-making and action-taking skills and Total for all managerial functions, Project-planning, organizing, and system-integration skills and Leadership, motivation, and reward-systems skills.

From the results it is shown that the managerial and technical directors of wealthy Greek Sport Federations used 66.7% "more empowering style and less controlling" and 33.3% "controlling style" in the key factors: Management-information /communication system skills, System-evaluation and internal-control skills and Total for all managerial functions, followed by Project-planning, organizing, and system-integration skills and Selection, placement, and development of people skills, Decision-making and action-taking skills and Leadership, motivation, and reward-systems skills.

Finally the managerial and technical directors of less wealthy Greek Sport Federations used 85.7% "more empowering style and less controlling" and 14.3% "totally empowering style" in the key factors: System-evaluation and internal-control skills and Total for all managerial functions, followed by Decision-making and action-taking skills, Management-information

/communication system skills, Project-planning, organizing, and system-integration skills, Leadership, motivation, and reward-systems skills, and Selection, placement, and development of people skills (figure 1).

	<i>Most wealthy Greek Sport Federations</i>			<i>Wealthy Greek Sport Federations</i>		<i>Less Wealthy Greek Sport Federations</i>		
	<i>More empowerin g style and less controlling</i>	<i>Totally Empowe ring style</i>	<i>controlling style</i>	<i>More empowering style and less controlling</i>	<i>Controlling style</i>	<i>More empowering style and less controlling</i>	<i>Totally Empowering style</i>	<i>Controlling style</i>
<i>Key Factors</i>								
<i>Management–information /communication system skills</i>	71.4%	-	28.6%	66.7%	33.3%	71.4%	-	28.6%
<i>Decision-making and action-taking skills</i>	71.4%		28.6%	33.3%	66.7%	71.4%	28.6%	-
<i>Project-planning, organizing, and system-integration skills</i>	57.1%		42.9%	50%	50%	57.1%	-	42.9%
<i>System-evaluation and internal- control skills</i>	85.7%		14.3%	66.7%	33.3%	85.7%	14.3%	-
<i>Leadership, motivation, and reward- systems skills</i>	14.3%	14.3%	71.4%	16.7%	83.3%	57.1%	14.3%	28.6%
<i>Selection, placement, and development of people skills</i>	85.7%		14.3%	50%	50%	71.4%	14.3%	14.3%
<i>Total for all managerial functions</i>	71.4%		28.6%	66.7%	33.3%	85.7%	14.3%	-

Figure 1. The extent of empowerment in most wealthy, wealthy and less wealthy Greek Sport Federations.



The results also showed that there is a significant difference among the most wealthy federations, wealthy federations and less wealthy federations, in one key factor of empowerment: Decision-making and action-taking skills ( $F(2, 17) = 4.00, p < .05$ ). The LSD Post Hoc test showed that the wealthiest federations ( $M = 34.16$ ) differ in the key factor: Decision-making and action-taking skills from the wealthy ( $M = 26.83, p < .05$ ). In addition, the wealthy federations differ from the less wealthy federations ( $M = 36.36, p < .05$ ). No other significant differences were found.

Data of the managerial and technical directors' responses were analyzed to gather information specific to the extent to which empowerment is applied to most successful, successful, and less successful Greek Sport federations (as shown by Olympic distinctions). From the analysis it is shown that the managerial and technical directors of most successful Greek Sport federations used 100% "more empowering style and less controlling" in the key factors Decision-making and action-taking skills and Total for all managerial functions, followed by Project-planning, organizing, and system-integration skills, System-evaluation and internal-control skills and Selection, placement, and development of people skills, Management-information /communication system skills, Leadership, motivation, and reward-systems skills. (figure 2).

Moreover, the results indicated that the managerial and technical directors of successful Greek Sport Federations used 87.5% "more empowering style and less controlling" and 12.5% "controlling style" in the key factor System-evaluation and internal-control skills, followed by Management-information /communication system skills, Total for all managerial functions Decision-making and action-taking skills and Selection, placement, and development of people skills, Project-planning, organizing, and system-integration skills, Leadership, motivation, and reward-systems skills. Finally, it was shown that the "totally empowering style" of management was not used by managerial and technical directors of most successful, and successful Greek Sport Federations.

Lastly, the managerial and technical directors of less successful Greek Sport Federations used 85.7% "more empowering style and less controlling" and 14.3% "totally empowering style" in the key factor Selection, placement, and development of people skills, followed by Management-information /communication system skills, Project-planning, organizing, and system-integration skills, System-evaluation and internal-control skills, Total for all managerial functions, Leadership, motivation, and reward-systems skills, and Decision-making and action-taking skills (figure 2).

	Most Successful Greek Sport Federations			Successful Greek Sport Federations		Less Successful Greek Sport Federations		
	More empowerin g style and less controlling	Totally Empoweri ng style	controlling style	More empowering style and less controlling	Controlling style	More empowering style and less controlling	Totally Empowering style	Controlling style
<i>Key Factors</i>								
<i>Management–information /communication system skills</i>	60%	-	40%	75%	25%	71.4%	-	28.6%
<i>Decision-making and action- taking skills</i>	100%	-	-	50%	50%	42.8%	28.6%	28.6%
<i>Project-planning, organizing, and system-integration skills</i>	80%	-	20%	25%	75%	71.4%	-	28.6%
<i>System-evaluation and internal-control skills</i>	80%	-	20%	87.5%	12.5%	71.4%	14.3%	14.3%
<i>Leadership, motivation, and reward-systems skills</i>	20%	20%	60%	12.5%	87.5%	57.1%	14.3%	28.6%
<i>Selection, placement, and development of people skills</i>	80%	-	20%	50%	50%	85.7%	14.3%	-
<i>Total for all managerial functions</i>	100%	-	-	62.5%	37.5%	71.4%	14.3%	14.3%

Figure 2. The extent of empowerment in most successful, successful and less successful Greek Sport Federations (Olympic distinctions).

The results showed that there is a significant difference among the most successful federations, successful federations and less successful federations, in two key factors of empowerment: (a) Decision-making and action-taking skills ( $F(2, 17) = 3.88, p < .05$ ), and (b) Project-planning, organizing and system-integration skills ( $F(2, 17) = 4.18, p < .05$ ). The LSD Post Hoc test showed that successful federations ( $M = 27.93$ ) differ in the key factor: Decision-making and action-taking skills from most successful ( $M = 36.37$ ) and less successful federations ( $M = 35.62, p < .05$ ). No other significant differences were found. Moreover, the LSD Post Hoc test showed that successful federations ( $M = 25.60$ ) differ in the key factor: Project-planning, organizing and system-integration skills from most successful ( $M = 32.17$ ) and less successful federations ( $M = 32.76, p < .05$ ). No other significant differences were found.

## Discussion

As shown from the findings in wealthiest and wealthy federations directors used “empowerment style” (blue zone) of management, while in less wealthy federations directors used not only “empowerment style” (blue zone) of management, but also “most empowering style” (green zone) of management. Furthermore, the findings of this study confirmed the Research Question if there is a significant difference among the aforementioned groups/federations (as shown by government funding), and the key factors of empowerment. More specifically in the key factor: “Decision-making and action-taking skills”, the managerial and technical directors of less wealthy federations are more likely to apply empowerment to a greater extent as well as implement the “most empowering style” (green zone), of management in comparison with wealthiest and wealthy ones. This finding is not supported by the literature which leads us to believe that although on a theoretical level government funding is based on performance, on a practical level funding is awarded based on political and personal relationships, individual persuasive and political power, level of sport visibility, and personal managerial effectiveness.

More particularly, in decision making the directors of less wealthy federations institute an open decision making process where power and responsibility for a decision are shared openly by all those who will be implementing it. The final decision move to the point that is most appropriate in terms of information, expertise and need. This process on the one hand enhances the federations’ ability to reach their goals and on the other hand encourages subordinates to work as a team and take on new responsibilities for developing a successful result and improved service quality in service organizations (Baetson, 1985; Sweetland & Hoy, 2000), like sport federations. Furthermore, the directors of less wealthy federations play a facilitative role, helping to develop effective guidelines delineating not only the decision participants but also the method of decision making, providing significant amounts of training which concern teamwork and increased responsibilities and ensuring that decisions are made accurately and carried out effectively (Psoinos, Kern, & Smithson, 2000; Vogt & Murrell, 1990).

Referring to Olympic distinctions, the directors of most successful and successful federations used “empowerment style” (blue zone) of management, while in less successful federations directors used

not only “empowerment style” (blue zone) of management, but also “most empowering style” (green zone) of management.

In addition the findings of this study confirmed the research question that there is a significant difference among the aforementioned groups/federations (as shown by Olympic distinctions), and the key factors of empowerment. More specifically in the key factor “Decision-making and action-taking skills”, the managerial and technical directors of most successful federations are more likely to apply empowerment to a greater extent in comparison with successful and less successful ones. This finding is consistent with other findings which suggest that more empowering staff usually improve the performance and productivity of its organizations (e.g. Ashness & Lashley, 1995; Dickmeyer & Williams, 1995; Leslie et al., 1998).

Also, the findings of this study confirmed the Research Question if there is a significant difference among the aforementioned groups/federations (as shown by Olympic distinctions), and the key factors of empowerment. More particular in the key factor “Project-planning, organizing, and system-integration skills”, the managerial and technical directors of less successful federations are more likely to apply empowerment to a greater extent as well as implement the “most empowering style” of management, in comparison with most successful and successful ones. This finding is contradicting to the literature which supports that empowerment is related to the improvement of performance indicators (Ashness & Lashley, 1995; Geralis & Terziovski, 2003), and shows that the extent of empowerment and the level of empowering style which technical and managerial directors exercised in less successful federations is not related to their performance.

Less successful federations could be characterized as small organizations since they have fewer employees than most successful and successful federations. Since, throughout the literature it is asserted that the flat structure of smaller organizations and fewer departmental interfaces result in a more flexible work environment (Younger, 1990) which offers the manager the opportunity to build a strong personal relationship with employees, contrary to larger ones. The present study has indicated that teams are very much a part of the culture of smaller organizations (like less successful federations). In smaller organizations, informal teams are used because managerial and technical directors believed that the teams’ capabilities and skills are needed to support the organization strategy (Craig & Moores, 2005). Additionally, the team approach in smaller organizations (like less successful federations) gives as many employees as possible a voice in processes, opportunities to influence the system and redefine the general organization goals, some autonomy, greater flexibility and a sense of being able to co-operate more effectively and readily with colleagues. Smaller organizations had crafted a unique approach to teams that suited their needs, technology and culture. The managerial and technical directors of smaller organizations (like less successful federations) have valuable interpersonal and leadership skills and are able to nurture groups and informal teams that foster the accomplishment of planning goals by showing to employees how their job fits into the overall organizational goals and encourage them to come up with ideas for improving the

organizational performance (Ashness & Lashley, 1995; Miller, 2003; Penzer, 1991; Vogt & Murrell, 1990).

Employees in smaller organizations (like less successful federations in this study) know clearly what is expected of them and how they can contribute to the attainment of their organizations' goals, have high morale, increased understanding and commitment to the organization objectives, as well as willingness to make attempts since they get involved in planning process (Ashness & Lashley, 1995; Penzer, 1991).

A total of 20 (77%) of Greek Sport Federations responded to the survey. According to Babbie (2004), a response rate of 50% or more is generally considered an acceptable response rate in the surveys. Based on this fact and the high response rates, it appears that the results of the study could be generalized to the target population (all Greek Sport Federations).

Further studies should seek to include the first division of the Greek football league (Superleague) as well as other professional federations such as basketball and volleyball federations. Researchers may also examine amateur sport federations and ascertain the effects of empowerment on their performance. Areas of further research could also include measuring the impact of empowerment on the satisfaction and loyalty of spectators.

The present findings show that the key factor of empowerment "Decision-making and action-taking skills" play a pivotal role in meeting customer needs, the directors of sport organizations and more specifically of wealthiest and wealthy sport federations should change organizational policies, processes, practices, and structures away from top-down control systems toward high involvement practices where power to make decisions, is shared with employees in the lower echelons of the organizational hierarchy (Bowen & Lawler, 1995). Moreover, the directors of wealthiest and wealthy federations can change practices to allow employees to decide on their own how they will recover from a service problem and then surprise-and-delight customers by exceeding their expectations rather than waiting for approval from a supervisor (Bowen & Lawler, 1995). By sharing decision-making power, upper management may thus have more free time to think strategically and innovatively about how to move the organization forward.

Also, the directors of successful and less successful sport federations should consider that the decentralization/devolution of decision authority to the employees is a central feature of empowerment, thus they should express more confidence and trust in their employees through delegation of significant decision making authority and encourage them to become more involved in the decisions and activities that influence not only their jobs, but also the federations' direction and performance.

Based on the notion that empowerment through employee involvement in service organizations has been shown to produce positive outcomes (as suggested by the literature), the directors of most successful and successful sport federations in Greece should empower employees through their involvement in planning process. This could happen by implementing a more collaborative and

participative planning process, through the use of quality circles, or of suggestion schemes, or of team briefings. These attempts/initiatives, on one hand include the ideas and experiences of employees, and on the other hand enhance employees' contribution in formulating plans that shape the business vision. As more people understand the organization and where it is planning to go, the more they become involved in and committed to developing the organization's goals and objectives (Bemowski, 1997; Collins & Porras, 1994; Mumford & Hendricks, 1996; Oakland, 1997; Purser & Cabana, 1997; Storey, 1992; Pfeffer, 1994; Wood, 1995).

## Biography

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## **CAUSE RELATED MARKETING: A TOOL FOR BUILDING CORPORATE REPUTATION IN THE BUSINESS SECTOR IN CYPRUS**

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### **Abstract**

The reputation of the corporation is often the most important asset it possesses in gaining a competitive advantage as well as building both financial and social successes. Corporate reputation depends on how the company conducts or is perceived as conducting its business. Today the ability to build a sustainable corporate reputation is more important than ever before as stakeholders are more educated, more knowledgeable, and more demanding. More and more corporations are focusing their efforts on gaining a competitive advantage and a strong positive reputation by demonstrating a commitment to their responsibilities towards the society. Cause Related Marketing has become one of the hottest forms of corporate giving and it is used by firms in order to build a strong corporate brand. The paper discusses the findings from a study carried out in Cyprus to shed light onto the efforts of three of the most well known businesses operating in Cyprus. The two are among the largest financial service organisations in Cyprus: The Marfin Laiki Bank that supports 'Radiomathon' a charity working in support of children with special needs. Ernst and Young, one of the most reputable auditing corporations in Cyprus which sponsors the Annual Fiesta of Young Volunteers in aid of children suffering from Leukemia, and finally, the CharPilakoutas Group which supports Ayia Skepi, a charity that helps drug addicts in rehabilitation.

**Keywords:** Cause Related Marketing, Corporate Reputation, Business Sector, Cyprus

### **Introduction: Corporate Reputation**

This paper tackles a topic of increasing importance – that of corporate reputation. The end of the twentieth century creates a new challenge for corporations – realising the potential of their corporate brands. In today's markets organisations focus on intangible factors in order to compete and differentiate their services/products in an environment, which is characterised by rapid changes. The reputation of the corporation is often the most important factor in gaining a competitive advantage as well as building financial and social success. Kitchen and Lawrence (2003) stipulate that even though corporations have always valued corporate reputation it is only in the latter part of the twentieth century that it became a topic of major importance. Morley (2002) suggests that corporate reputation is founded on the following elements: public affairs, philanthropy, employee relations, community relations, investor relations, sponsorship, and media relations. More and more corporations today are realizing that finding ways to be more responsive to society can help them influence their corporate

image (corporate reputation). Van Riel (1995: 27) defines: 'corporate image' as the picture that people have of a company, and "through which people describe, remember, and relate to it." (Dowling 1986).

A positive image that people share about an organisation can yield positive influence on the quality of the relationships. Chajet (1989) postulates that a company with a good image can more easily attract audiences that influence the success of the organisation such as: investors, partners, employees, and customers. Muckiewicz (1993) supports that research studies indicate that 9 out of 10 consumers use the reputation of an organisation in order to decide which product or service they will buy from those that are similar in price and quality. Poiesz (1986) stipulates that without the existence of images, it will not be easy for consumers to decide which products to buy. Bernstein (1986) claims that image affects attitudes, which in turn affect behaviour. The Reputation Institute indicated that the best corporate reputations in the USA – the world's major market – also perform significantly better than others in terms of market share and share value (Wall St. Journal 1999). The reputation of a company needs to be protected as it can ensure the growth and long-term survival of the company; it can enable it to establish strong relationships with its stakeholders; improve shareholder value; increase customer loyalty to the products of the company; form partnerships and strategic alliances as the partner company has the potential to improve its own reputation by association; improve employee morale, and at a time of a crisis a good corporate reputation can shield the company from criticism and even blame ( for example, the Johnson & Johnson and Pepsi Cola tampering cases (Morley 2002).

An organisation's reputation is shaped by the 'signals' the organisation gives about its nature for example, the behaviour of its members, or the type of organisational activities performed. In fact, various businesses focus their efforts on gaining a competitive advantage and a strong positive reputation by demonstrating a commitment to their responsibilities towards the society. Social responsibility refers to the obligation of a firm, beyond that required by law or economics, to pursue long-term goals that are good for society (see for example Buchholz 1990; Robbins and Decenzo 2001). The EU's definition of CSR states that: "it is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis." (Euroabstracts 2004, p. 10).

It can be argued that many organizations have been motivated to undertake social responsibility programs by the rise of consumerism, the heightened public awareness of environmental and ethical issues, the increased pressure of organized activist groups, and an increased understanding that a competitive advantage depends on reputation and not simply products or prices. Somerville (2001) suggests that corporate social responsibility programs show a recognition of the duties and responsibilities that companies have to the wider community and contribute to the common good by benefiting both the company and the society. An organization's position in the marketplace depends on its acting in a socially responsible manner and also on how ethical its publics perceive it to be. The way in which organizations act, and the way they are perceived by their target publics and the general public is a fundamental factor in managing their reputation. Hence, a good reputation has to

be earned. In a survey carried out by Loughborough University for the Economist in 1991, 1,800 business people were asked what qualities contributed to a good, positive reputation. The list devised included community and environmental responsibility (Harrison 1995 p. 72).

The way organizations behave, talked about, reported and perceived by their publics, influences greatly the management of their reputation. By aligning charitable giving with the corporation's self-interest in which corporations select suitable recipients of funding not so much according to need, but according to their potential of adding brand value, improves corporate reputation. In today's complex and global society, organisations are not judged on their achievements but on their behaviour too. This is in fact an opportunity for corporations if they see CSR as an essential business strategy by corporations. Why? Because brand value and reputation are widely accepted as a company's most valuable assets and CSR can instil trust and brand loyalty. In principle CSR can be used to strengthen corporate reputation and profitability by signaling to the various stakeholders with whom the organization interacts that it is committed to meeting its moral obligations and expectations beyond common regulatory requirements.

Research has shown that corporations and the civil society have become more tightly interrelated. Business involvement in civil society focuses on charitable giving, corporate philanthropy, and community participation. More recently the focus has shifted on 'strategic philanthropy' (Smith 1994) and 'cause-related' marketing (CRM) (Varadarajan and Menon 1988a). In fact, more and more corporations are motivated to engage in CRM as research has shown that CRM has significantly improved customer retention and a positive perception of the brand (Crane and Matten 2004).

### **Cause-Related Marketing (CRM): Aligning CSR with business motivations**

An increasing number of corporations are attempting to align their CSR with business motivations. The effort is placed on 'marrying' the corporate strategy of community involvement with social issues related to their business. CRM is a prime example of the partnership formed between corporations and charities to raise both money and brand awareness. Business in the Community, defines CRM as "a commercial activity by which businesses and charities or causes form a partnership with each other to market an image, product, or service for mutual benefit." (<http://www.bitc.org.uk>). It includes all the different ways in which businesses are benefiting charities and good causes through CRM partnerships that consist of donations, and additional support leveraged through customers, suppliers, or employees.

American Express introduced the term 'cause-related marketing' in 1983 when it promised to make a donation to renovate the statue of Liberty each time someone used its charge card (Adkins 2005, p.15). The end result was a contribution of \$ 1.7 million made by the corporation, but the cause-related campaign produced a 28 percent increase in card usage. Kotler (2003, p.27) believes that companies see cause related marketing as "an opportunity to enhance their corporate reputation, raise brand awareness, increase customer loyalty, build sales and increase press coverage". The Business in the Community Cause Related Marketing Tracker 2003 has found that £ 58.2 million was raised by over 60 businesses benefiting over 60 charities and good causes through over 80 CRM programs. The CRM

tracker was launched by the BITC in 2003 with the aim of identifying CRM programs undertaken during 2003 in order to benefit the society. Tsai (2009) claims that the CRM campaigns must have a memorable and meaningful theme, it focuses on a charity cause that supports social norms and needs and demands immediate attention and finally, the campaign should entice the public to participate. Gupta and Pirsch (2006) postulates that the success of a CRM campaign depends on the ability of marketing managers to create a positive feeling towards the brand, select a cause that aligns with the corporation and ensure that the consumer does not believe that you are exploiting the social partnership with an over-emphasis on promotion. Well-implemented and promoted CRM programs have the potential to bring enormous benefits in the partnership whereas an ineffective CRM campaign can backfire and damage the reputation of the partner organizations and harm the work of the charity or cause involved.

CRM has the potential to provide the means to use the power of the brand to publicly demonstrate a firm's commitment to addressing the social issues of the day through providing resources and funding whilst addressing business marketing objectives. The table that follows presents some of the most successful CRM campaigns of all times.

- *Johnson & Johnson formed a partnership with the Children's Hospital Medical center and the National Safety Council to sponsor a five-year cause-related marketing campaign to reduce preventable children's injuries. A total of 43 non profit groups for example the American Red Cross, National Parent Teachers Association, and the Boy and Girl Scouts of America helped to promote the campaign.*  
*www.csr2004.nl/english/content/session/session5\_1.html*
- *Procter and Gamble has sponsored many cause-related campaigns. For example, the corporation has mailed out billions of coupons on behalf of the Special Olympics for retarded children.*  
*www.specialolympics.org/.../News\_Archive/*
- *Levi Strauss learned through focus group studies that young parents were frustrated in their efforts to get their young children dressed for school. So the corporation paid the Bank Street College of Education to create a booklet called "Let's Get Dressed!" to provide tips for parents. The campaign received substantial publicity coverage on TV talk shows and in national women's magazines. Sales of Levi's children's product range have tripled since the launch of the campaign (Kotler and Armstrong 2001).*
- *Tesco's Computers for Schools scheme has become the benchmark for CRM programs in the UK. The initiative has led to the delivery of over 84 million pounds worth of information communications technology equipment to schools in the UK, through shoppers collecting vouchers that are then exchanged by their chosen schools for equipment. BitC's research reveals that 89% of consumers are aware of the program (Ramrayka 2004, p. 9).*
- *BT and ChildLine – 'Am I Listening?' campaign (Winner of the Cause Related Marketing Award for Excellence 2004), which aims to ensure that the voice of every young person in the UK is heard. BT's combination of technical and financial support for the ChildLine telephone counseling service has contributed 2.9 million pounds to help the charity increase the number of calls it can respond to each year and it has increased employee motivation and won the corporation many awards (Ramrayka 2004, p. 9).*
- *Debenhams Retail plc and Breast Cancer Campaign. The CRM campaign focused on heightening awareness of breast cancer and its symptoms by sharing timely information through a variety of forums. It also incorporated a wide variety of product promotions and staff and customer activity to raise funds towards finding a cure for the disease. The campaign's impact was: it provided Debenhams with a competitive*

*advantage over its competitors, over £225,000 raised for breast cancer, enhanced relationships with key suppliers and forged new commercial agreements.*

*[http://www.bitc.org.uk/resources/case\\_studies/crmdebenhamsbcc.html](http://www.bitc.org.uk/resources/case_studies/crmdebenhamsbcc.html)*

- *Ford Motor company and Breakthrough breast cancer. Through the partnership, Ford's objective was to raise £ 1.25 million over 5 years. The campaign's impact was to raise Ford's corporate reputation, sales and market share growth exceeded expectations, over £ 1 million donated to Breakthrough since 1999 and recognition of Breakthrough Breast Cancer increased from 28% to 34%. [www.bitc.org.uk/resources/case\\_studies/crmforddrivecure.html](http://www.bitc.org.uk/resources/case_studies/crmforddrivecure.html)*
- *Avon cosmetics Ltd and Avon breast cancer crusade has raised over £ 10 million for UK breast cancer charities. Over £ 8.4 million has been donated to their charity partner Breakthrough breast cancer. The campaign has enhanced Avon's reputation, Avon acknowledged as a leading CRM practitioner, short listed at the Marketing Effectiveness Awards 2003, and 50 of Avon's markets now support the breast cancer cause and global fundraising has now surpass \$ 300 million. <http://cancerweb.ncl.ac.uk/cancernet/400385.html>*

In all the CRM campaigns the emphasis is placed on positioning the brand at the heart of the partnership and not on straightforward philanthropy. Pringle and Thompson (1999) view CRM as an activity by which a company with image, product or service to market builds a relationship with a "cause" or a number of "causes" for mutual benefit. Zummach (2002) underlines the value of CRM stating that the corporate partner benefits from its association with a charitable cause and the non-profit organisation benefits by receiving funds or other compensation from the corporation.

Research findings provided by Business in the Community reveals that 58.2 million pounds was raised for charities in the UK through CRM programs during 2003, an increase of over 15% on 2002. This figure is inclusive of over 24 million pounds of leveraged funds through staff, customer, and supplier fundraising (Ramarayka 2004). Bearden et al (2003, p. 421) claim that the real objectives of CRM campaigns vary from solely economic to solely social where there is extraordinary commitment to the cause and not to the expected profits.

BITC Corporate Survey III (2001) shows that 96% of Marketing and Community Affairs Directors appreciate the beneficial role of CRM in addressing business and social issues whereas, 77% of Chief Executives, Marketing Directors and Community Affairs Directors believe that CRM can enhance corporate brand reputation.

## **The research study**

The study was primarily qualitative in nature since the aim was to explore people's perceptions and attitudes towards the adoption and implementation of CRM. Since the current literature is limited as to what CRM is or how it should be implemented by corporations, it was necessary to examine its nature and scope within the corporate sector. This gave ground to adopting a case study rather than a survey approach in order to uncover the CRM campaigns launched by two of the largest financial service organisations that operate in Cyprus; a retail bank and an auditing firm as well as by one of the largest car retailers in the country.

The research study sought to explore the rationale for the implementation of CRM by the two largest retail banking organisations operating in Cyprus, the Bank of Cyprus and Marfin Laiki Bank as well

as by Ernst and Young and the Char. Pilakoutas Group, one of the most reputable companies in the local motor trade. The researchers were interested in shedding light onto the motives behind the CRM initiatives of these four corporations and the nature of the CRM campaigns implemented. The paper discusses the perceptions and experiences of the various partners involved in the four CRM campaigns.

The case study approach was adopted because of its strength to reveal rich and in-depth data, which was essential in order to understand the concept of 'CRM' as applied by the organizations studied. Since the current literature on CRM is limited as to what CRM is, it was important to explore the experiences and views of different individuals in order to unveil its nature and scope within a specific context. This, in our view, provides sufficient ground for adopting a case study rather than a survey research approach. A number of criticisms have been targeted at case studies for example that they are time-consuming and difficult to manage due to the high volume of qualitative data that they generate, and that they provide little ground for scientific generalization. Yet the quantitative notion of generalizing is inappropriate for qualitative case study research because qualitative cases are not statistically selected to represent a larger population (Daymon and Holloway, 2002).

The research process adopted in the study builds around Mason's (1996) view that theory is developed from and through data generation and analysis. According to this view, theoretical propositions or explanations of the data are developed in a process which is commonly seen as moving from the particular to the more general. Theory is developed through the interpretation of the empirical data, and is grounded in reality (experiences, interpretations, and actions of the interviewees regarding CRM). The actual analysis of the data was carried out by following a model developed by Strauss and Corbin (1990) known as grounded theory. The researchers used the three coding procedures, which are integral in developing a grounded theory, namely: open, axial, and selective. Open coding is the process of breaking down, examining, comparing, conceptualising, and categorizing data. Axial coding includes a set of procedures whereby data are put back together in new ways after open coding, by making connections between categories. Selective coding involves integrating and validating the emerged categories and relationships around one central concept i.e. CRM. The coding was carried out by one of the researchers, who is trained in qualitative research. In the specific study, codes were attached to the empirical material and concepts were developed as closely as possible to the text for example: social responsibility, and corporate reputation. Later, such concepts become increasingly abstract. The development of theory was based on the formulation of networks of categories or concepts and the relationships between them.

### **The Marfin Laiki Bank and Radiomarathon**

The data related to the CRM campaign launched by the Marfin Laiki Bank was collected through primary and secondary data sources. Secondary sources included an analysis of documents related to the 'Radiomarathon' such as promotional leaflets, and its web site. Primary information was collected through carrying out an in-depth personal interviews with members of the Charity, the Radiomarathon Organising Committee, the Radiomarathon 'Think Tank', and project managers of the

Radiomathon Limassol Love Festival. The interviews held with the marketing manager of the bank, and the one of the campaign's managers were tape-recorded, and lasted for approximately one hour.

### **Ernst & Young and Young Volunteers**

The data regarding CRM by Ernst & Young was collected through primary and secondary research. The secondary data sources used were the company's web site and promotional leaflets. Primary data was collected by carrying out in-depth interviews with the HRM manager, the CEO of Ernst & Young, and the President of the board of Young Volunteers - Cyprus. The interviews lasted approximately 30-45 minutes. A questionnaire with close-ended and open-ended questions was distributed to the firm's personnel in order to reveal their attitudes and perceptions regarding the CRM campaign launched by the corporation, their role in this CRM strategy and the effects the above strategy has on the moral of the employees. In order to enhance the knowledge built regarding the practice of CRM by Ernst and Young, an internal market survey was carried out. A questionnaire with twelve close-ended and five open-ended questions was distributed to internally to 25 employees working in different positions such as: Five to the Human Resource department, five to the secretarial staff, five to the top managers and ten to the company's accountants. In order to encourage employee participation the researchers promised confidentiality and anonymity. A total of 25 completed questionnaires were returned. The internal survey was aimed at measuring employees' feelings and attitudes regarding the practice of CRM, identifying employee involvement, and the employees' views regarding the effectiveness of the CRM program to the firm and the society. The analysis of the quantitative data was carried out by using SPSS and Excel programs.

### **CharPilakoutas Group (BMW) and Ayia Skepi**

For the BMW distributor, CharPilakoutas Group, the data was collected through primary and secondary data sources. Secondary sources included an analysis of promotional material related to the campaign such as presentations, promotional leaflets, television advertisements, and press conferences. Primary information was collected through carrying out in-depth personal interviews with members of the charity and with the members of the organising committee of the CRM campaign. In total the researchers carried out ten interviews with members of the BMW's marketing department and five interviews with members of the charity's organising committee. The interviews, which were tape-recorded, lasted for approximately one hour. The researchers did not use an interview guide but instead they encouraged the interviewees to share their perceptions and experiences regarding the rationale, the nature of the CRM campaign, and the emergent benefits.

## **The CRM Campaigns**

### **BMW and Ayia Skepi**

In spring 2005 BMW launched the 'three' series model in Cyprus. Their marketing strategy usually consists of two types of activities: below the line and above the line. The first incorporates the use of TV and radio advertising and the second all the activities that do not directly incorporate advertising.

The core promotional activity is the planning and launch of an event in which the BMW dealer invites 4000 people to attend and to which audience it introduces the new product. The head of BMW's marketing department stated:

"Our challenge was to launch the BMW 3 series in the Cyprus market as the sports sedan – setting the benchmark at an even higher level by offering unparalleled dynamics, premium substance and efficiency. We had to maximize the PR effect of our budget and not repeat what has already been done by us or the competition. We would like to give a different polish both to the brand and to this model...ideally we wanted to stress the 'responsible' side of our culture facet." (Marketing Manager and head of the CRM campaign)

This time the marketing team was determined not to repeat something, which had been done before. The starting point for the campaign was BMW's core values: Joy, Dynamism, Culture, and Individuality. These values shaped the brand's identity. The value that tended to be weak was 'culture'. There was a need to clarify and emphasize the central cultural values embraced by the company. This gave them the rationale for designing and launching a campaign that would highlight BMW's efforts to be seen as a socially responsible organization.

Although the marketing team identified three social problems faced by Cypriot society today namely, drug abuse, cancer and traffic accidents, the area of drug abuse was considered to be a neglected one and in need of financial support and publicity. Several research studies carried out by governmental and private organizations revealed that drug abuse is one of the most serious social problems in the country. The Cypriot government has launched a strong campaign on 'Drink and Drive' and many private and public organizations support cancer research and cancer patients and their families. However, currently, Cypriot charities only receive the amount of £ 6,000 per annum from the government and have to rely heavily on donations and the work of volunteers.

The BMW dealership decided to form a partnership and support *Ayia Skepi*, a charity supporting drug addicts in rehabilitation. Initially, there were some concerns among the members of the marketing team since the word 'drugs' has a negative connotation. The association of the BMW brand with drugs could have had a negative impact on the company's and brand's reputation and the efforts of the organization to raise money for a social cause could back fire. However, after careful consideration, the marketing team decided to go ahead and launch the campaign feeling confident that the potential positive impact could outweigh any negative associations.

*ayia Skepi* was formed when one of the most famous Monasteries in Cyprus was faced with an increasing number of drug addicts seeking support and help in 1999. The Greek Orthodox Church decided to create an organization whose members would work on a voluntary basis in order to help drug addicts in rehabilitation. When it was launched the Church donated a piece of land on which to build a rehabilitation centre with money raised from donations. *Ayia Skepi* offers support to drug addicts who use 'hard' drugs such as heroine. The support takes the form of a team of psychologists who offer psychological support and guidance and rehabilitation programmes have a duration of 12-18 months. During this time the drug addicts are not allowed to leave the centre for more than one



day. Currently, there are over sixty people who have undergone the rehabilitation treatment successfully and have rejoined their communities.

At the outset of the campaign there was a need to get a permission from the head quarters of the BMW Group in Germany. BMW gave the go ahead and suggested that such activities should be adopted by other BMW agents around the world. The BMW group appears to be actively involved in social programmes which have such goals as:

- Increased road safety
- Promoting understanding among people and opposing violence
- Achieving increased recognition of highly gifted children and young people
- Educational projects in kindergarten and schools
- Creating understanding and mutual trust in communities where the company is located
- Fighting HIV/AIDS

The corporation has embraced these areas for its sociopolitical commitment because they reflect its corporate culture and goals (<http://www.bmwgroup.com>). It is evident from the corporation's web site that BMW is not the sponsor of these activities instead its primary role is to initiate and launch its own projects. Among the social responsibility spectrum, BMW supports activities that are related to the physical environment, its employees, community relations, and culture.

As noted earlier, the desirable outcome for the campaign in Cyprus was to strengthen the 'culture' element of the corporate brand and at the same time create awareness and knowledge for the new product. BMW had 30,000 Cyprus pounds available for the launch and promotion of a new product. However, the team decided to find a way to maximize the financial benefits for the charity and towards this end BMW donated a 320i to Ayia Skepi. The next step was to get permission from the Cypriot government in order to issue raffle tickets to raffle off the donated BMW. After many efforts and difficulties, the government gave a permission to the charity but not to the BMW to issue the raffle tickets. 75,000 raffle tickets were issued and BMW joined forces with the Cyprus Football Federation, in promoting and selling the tickets. To promote the campaign, the Football Association decided to use the last two Cyprus 1st Division National Football Championship matches of the season of all of the teams in the league (a total of 14 football matches). Football tickets for these matches were sold at a higher price (£1 higher than the normal selling price) and the extra revenue created by the price increase went to the charity. At all the football matches 320i cars were driven on the football pitch and there was live TV broadcasting of the cars being driven in the stadiums. The CRM campaign, under the name "Value of Life" was eventually launched in April 2004 and its duration was six weeks (4th April 2005-23rd May 2005).

- On the 4th of April 2005 the marketing team invited fifty-one journalists from automotive, lifestyle, and business press and representatives from all the Cypriot TV stations to a press

conference in order to create awareness regarding the campaign. The press conference was organized at the BMW's showroom in Nicosia (the capital of Cyprus). Clips from the video-taped press conference were then broadcast through TV stations.

- An advertising campaign promoting the CRM campaign and the new 320i car was launched through a wide array of media. This included television, newspapers, and magazines (60% TV, 30% press-national and local) and the remaining 10% was allocated to outdoor advertising in the form of posters, billboards and banners. Several national newspapers devoted front page coverage to the campaign.
- BMW got permission from local municipalities to exhibit 320i cars in central locations such as town squares and art galleries in all the cities in which the campaign ran. Raffle tickets were also sold through the offices of the Cyprus Football Association, and the charity's central offices. The selling points were supported by members of the charity and BMW personnel who worked on a voluntary basis. All the representatives of the campaign wore hats and t-shirts exhibiting the slogan of the campaign: "Value for Life". All selling points were also equipped with a banner promoting the campaign.
- Publicity for the campaign was created by the local press which produced several articles praising the efforts of the corporation: "BMW 3 draw in aid of drugs rehab centre", "Value for Life in the fight against drugs", and "BMW dealer teams up with Cyprus FA in drugs fight" reporting on several events that were integral parts of the campaign.
- BMW permitted each raffle holder the opportunity to visit the BMW showroom and test drive the new 320i car. At the same time each prospective client taking a test drive was given a raffle ticket.

Although at the beginning of the launch the key aim was to promote the new product, this gave way in turn to a determination to achieve the maximum possible benefit for the charity. It became a quest for all the partners and the participants including BMW employees. By the third week, 48,000 raffle tickets had been sold. By the end of the campaign the total number of tickets sold was 75,000, increasing the money raised to £ 75,000. All the partners claimed that the CRM campaign had produced many benefits which exceeded their expectations. All the stakeholders felt that the campaign was about partnership and mutual benefit. Giving this mutuality and joint ownership is important because it ensures that each side appreciates the contribution, strengths and weaknesses of the other and all strive to achieve their mutually agreed objectives.

The benefits to the BMW:

- Enhanced corporate and brand reputation: The head of the marketing department claimed that: "We believe that such activities have the potential to strengthen the company's reputation...we have received positive feedback from our customers, our agents, members of the public and of course our employees. The campaign has given the company a more 'human' face...it has brought us closer to the society."

- Created awareness and knowledge for the new product
- A member of the BMW's marketing team claimed that: "The campaign has definitely created awareness for the new BMW series...the number of test drives were higher than ever before especially for a new car. And if the company can benefit others whilst generating sales for its products then this is the way forward."
- Can improve the firm's standing in relation to its competitors: "In the luxury car sector...competition is aggressive and we have very little to differentiate ourselves from our rivals. I strongly believe that such campaigns can enhance our reputation and set us apart from our competitors. Although we do not have any hard data...if the public can associate the firm with such causes then we can be ranked first in terms of corporate reputation." (a member of the BMW marketing team)
- Increased staff morale and created a sense of camaraderie among employees : "The campaign has united staff for a common cause. It has established a sense of camaraderie, it has increased teamwork, and it has definitely improved the quality of the work environment." (another member of the BMW marketing team).

The benefits gained by the charity:

- Raised £ 75,000
- Publicity for the charity and its cause
- Opened up new horizons for potential partnerships

### **The Marfin Laiki Bank and Radiomarathon**

The corporation attaches great importance to its contribution to the society of which it is an integral part. It has developed a social policy aimed at improving the quality of life on the island. The corporation's social responsibility policy involves sponsoring as well as organising events, which address the needs of various social groups. The culmination of the organisation's social activities and the leading social and charitable event on the island is the Radiomarathon for children with special needs, which has completed 15 years of contribution. Radiomarathon has had an undisputed contribution to the quality of life of children with special needs and their families. At the same time the corporations social policy is complemented by a series of programmes that focus on sports sponsoring, arts, and education to which the organisation offers support and financial help.

Radiomarathon was launched in 1990 in Cyprus when the Cyprus Popular Bank, the second largest banking organisation, and one of the privately owned radio stations, Super, joint their forces in what was going to be the first and by far the biggest charity event in Cyprus. At the same time a non-profit making institution was established under the name Radiomarathon, which is today the largest charitable institution in Cyprus. A close partnership has since been established between the bank and the charity in order to support the CRM campaign. In its first year the charitable event raised 332.374 Cy pounds in 36 hours, which was a remarkable amount for the time. In the last few years

Radiomathon is jointly organised with the Cyprus Broadcasting Corporation as radio Super closed down. Radiomathon raises money in support of children with financial problems, illness, and mental disabilities. In 1991, the amount raised was 160.000 Cy pounds, which was spent in creating the first institution for the children with special needs on the island. In 1992 and 1993, Radiomathon raised 450.000 and 728.000 Cy pounds respectively. The amount reached 962.000 Cy pounds in 1994. In the last Radiomathon the amount raised was equivalent to 899.850 from which 169.750 was given to several charitable organisations and the remaining 730.100 were allocated to 1719 different cases. Every year a series of fund-raising events that begin a month prior to the two-day celebrations are organised. The fund raising events of Radiomathon have been accepted in an overwhelming manner by social associations, groups, and citizens of the local communities. The entire amount of money raised every year goes to a special committee that is responsible for the allocation of funds to those in need. In the period 2003-2004, almost 1 million CYP was raised and given to charitable organisations that care for children with special needs. 800,000 was given to 1874 different children. Over the last 15 years an amount of over 15 million Cy pounds has been raised and used to help children with special needs. This is quite impressive since the Greek-Cypriot population in the South part of the island is approximately 700,000.

Radiomathon focuses on:

- Providing psychological and financial support to children with special needs.
- Changing the attitude and the behaviour of the society towards children with special needs.
- Opening new horizons by implementing new programs in aid of these children.
- Becoming a pressure group to change legislation in relation to the rights and the quality of life for these children.

The launch of Radiomathon demanded a substantial amount of effort, as it required the coordination of a significant number of volunteers and wide array of fund raising activities including: music and dancing events, sports events, marches, movie and theatre shows, art exhibitions, fairs, donation stands, blood donations, and 'piggy-bank' cars. Among the official sponsors are governmental, semi-governmental, public and private organisations specifically: Cyprus Airways, the Cyprus Police Force, the Cyprus Telecommunications Authority, Louis Cruise Lines, and Fileleftheros Newspaper. Among the volunteers were also many citizens of the local communities in which the events took place as well as a significant number of the personnel of the Cyprus Popular Bank. All volunteers were united by the common cause, to raise money to support the children with special needs whilst the credibility of the bank added confidence and trust in the cause. The personnel of the bank played a crucial role to the success of the event. Voluntarily they worked outside their normal work schedule, often months before the two-day charitable event. Responsibilities regarding the different projects/activities that are an integral part of Radiomathon were assigned to organisational members in order to motivate them to embrace the event and instil a spirit of teamwork. In total there are 70-80 individual projects. A project manager is responsible for each project and with a team

of volunteers work towards the effective implementation of the project. Employee participation has been the primary and indeed an effective means for promoting the event to the internal market.

In the external market Radiomathon is promoted primarily through advertisements placed in the Cyprus Broadcasting Corporation (television and radio) as well as in newspapers and magazines that are circulated nationwide. At the same time emphasis is placed on the use of celebrities such as athletes, actors/actresses, singers, and artists in order to draw attention to the event.

What motivated the bank to launch Radiomathon was the strong belief that social responsibility is an integral part of corporate identity:

“It is unthinkable to be such a large corporation and ignore your social responsibilities. Unquestionably, CSR can differentiate corporate image. Studies have repeatedly showed that the general public shares the perception that our bank is a SR corporation, which in turn influences their purchase decision-making and of course differentiates us from our competitors.” (Manager, Marfin Laiki Bank).

Studies carried out by the bank have shown that the Radiomathon is directly linked with the bank, and is widely perceived as the most successful charitable event on the island. Radiomathon has in fact won a place in the Guinness World of Records as the most successful charitable event in the world on the basis of per capita contribution. The bank has also achieved higher favorable ratings than its competitors. Several European and American authors (Varadarajan and Menon 1988b; Smith and Alcorn 1991; Andreasen 1996; Guardia 1998; Meyer 1999; Recio and Ortiz 2000; Fundacion Empresa y Sociedad 2001) postulate that CRM can be an effective tool for differentiating brands and for obtaining emotional positioning among customers. The present study revealed that ‘Radiomathon’ has strengthened the bank’s corporate reputation. The literature review corroborates this finding (Ross et al 1992, Brown and Dacin 1997, Berger et al 1996). In an effort to measure the impact of Radiomathon, the bank carried out internal research studies that showed that the bank’s staff shares the view that the event has enriched their job, and has made them more motivated and productive. A research finding that also emerged from the study of Ernst and Young’s employees’ perceptions. Aldrich (2002) supports that CRM campaigns have the potential to improve a company’s image not only with customers but also with other stakeholder groups such as employees and investors.

The benefits of Radiomathon are double-sided. It did not only raise a significant amount of money in support of the children with special needs but it has created awareness regarding the children’s needs and problems, it has addressed the prejudice towards these children and their families, and last but not least the government is now working on the development of new legislation for this group of people.

“Radiomathon has played an important role in fighting the prejudice and the fear towards these children and their families. It has created a more positive attitude and a better understanding of the needs of these children. It has provided a forum for an open dialogue

between the government and non-governmental bodies regarding the problems that these children and their families are faced with.” (Vice President of the Radiomarathon Foundation).

“Today, after many efforts we feel that we have covered a lot of ground in improving the quality of life of these children. They are now given equal opportunities to education, and employment...Radiomarathon has helped them feel part of our society.” (Member of the Radiomarathon organizing committee).

### **Ernst and Young: An overview**

Ernst & Young (Cyprus) has its origins dating back to the 1930s. It is one of the leading professional services organizations on the island offering a full range of integrated services in assurance and advisory business services, business risk services, technology and security risk services, transaction advisory services, tax advisory and compliance services, corporate recovery services, and company administration services. In 1997, Ernst & Young became part of Ernst & Young Southeast Europe. The firm provides services to clients in a wide range of industries including energy, chemicals and utilities; financial services; industrial products; real estate, hospitality and construction; retail and consumer products; services; technology, communications and entertainment; and transportation. The clients of Ernst & Young Cyprus range from major public companies and large multinationals to entrepreneurial businesses and sole traders. As a committed and responsible business, Ernst & Young expects to make a positive contribution to the community in which they work. They help a number of causes directly by contributing funds and resources to different organizations. In the last four years Ernst & Young has built a strong relationship with the “Young Volunteers”, a charity with which Ernst & Young has formed a partnership. This partnership is in fact part of the firm’s strategic plans.

### **Young Volunteers - Cyprus**

“Young volunteers” is a registered charitable organization founded in 2001. All its members are young children between 4-16 years of age. The main objective of this organization is to encourage voluntarism with the involvement of the whole family and through this, to offer community service. With the slogan "small in size BUT big at heart" the charity supports the less fortunate children of Cyprus. Since 2001 the charity has raised over 50.000 Cyprus pounds. The amount has been allocated to children’s charities and associations, as well as individuals and families with sick and poor children. Charities that have received donations include the Cyprus Antileukemia Association, Europa Donna, the Cyprus Anticancer Association and the Alzheimer Patients Association. According to the president of the charity, the Young Volunteers aim to:

1. Involve children in volunteering activities from an early age
2. Become sensitive to the problems and misfortunes of others

3. Encourage children to vision a brighter future for all
4. Develop their personal talents and leadership skills
5. Create and encourage team spirit and self-esteem
6. Strengthen family ties and create lifelong friendships

Ernst and Young have realized the potential in strengthening their corporate reputation by forming a partnership with the charity. As a result, Ernst and Young became the main sponsors of most of the activities organised by the charity since 2001. Among the activities that Ernst & Young has sponsored is the production and distribution of the first record with the songs of the Young Volunteers' choir. All the revenues from the sales of this record were given to children in need. In addition Ernst & Young sponsors the Annual Fiesta of Young Volunteers, one of the most reputable charitable events in Cyprus in order to raise money for children suffering from Leukemia. The sponsorship covers activities such as the promotional campaign of the event which includes a promotional 4-ply brochure which is distributed to every pupil of elementary and high school in Nicosia. The majority of the organisational members work for days and even weeks outside their normal workload in planning, organising and managing the wide array of activities that are an integral part of the event.

*The CEO of Ernst & Young, when asked about the rational for the firm's partnership with the Young Volunteers he said without any hesitation:*

*"Corporate Social Responsibility is now a determining factor in consumer and client choice which companies cannot afford to ignore. Companies who fail to maximise their adoption of a CSR strategy will be left behind. Ernst & Young, as a committed and responsible business, expects to make a positive contribution to our community. Thus we have chosen to make a "social alliance" with Young Volunteers since we strongly believe in the cause they strive for. The publicity and the success of the events we organized together do not allow space for doubts!...the event has given us the differentiation we need and indeed a competitive advantage." (CEO –Ernst & Young)*

*The Human Resource Manager of Ernst & Young added with pride:*

*"Many of our people play an active role in contributing their time to help the Young Volunteers and we are proud to support them."*

*The president of the Young Volunteers also has strong positive feelings about the partnership:*

*"Ernst & Young is a 'valuable' friend...supporting us in every step we make. Without their support we could have been steps behind."*

## Conclusion

The literature reviewed suggests that corporate image refers to the meanings by which an organisation is known and which people use to describe or remember it. It is the outcome of peoples' beliefs, impressions, experiences, perceptions and feelings about an organisation. A strong corporate reputation is the foundation for building successful commercial relationships with different target publics, it generates faith and trust between an organisation and internal/external audiences,

motivates internal groups, provides a competitive advantage, and affects peoples' attitudes which in turn affect behaviour towards an organisation. It is important to acknowledge that no company can afford to ignore corporate reputation. The impression it creates either at an unconscious or conscious level inevitably affects stakeholders and other publics. The good or bad reputation of an organisation is shaped to a considerable degree by the signals that it gives about its nature. Such signals are subsequently received by different target audiences and are used to form perceptions and feelings about an organisation. CRM can be one of these signals or cues, which an organisation can offer as a form of expression. It can be one of the principles for constructing or modifying corporate identity (the personality of an organisation).

The success of the 'Radiomathon', 'Value for Life' and the 'Annual Fiesta of Young Volunteers' from the corporate partners' perspective demonstrates how the proactive implementation of activities related to CRM on a planned and sustained way can help build a strong corporate reputation. Community involvement through CRM, brings in line the corporation's brand with its overall corporate citizenship agenda. The three cases show that CRM has the potential to be used as a means for building a strong corporate brand and gaining a long-lasting competitive advantage through achieving differentiation. However, there is a need for more evidence before we can generalise the findings since the study was limited in investigating the firm's perceptions towards CRM. Future research should be directed at exploring the perceptions and beliefs of external stakeholder groups such as customers or shareholders in order to strengthen the research findings.

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## CORPORATE BOND MARKET IN DEVELOPING COUNTRY: BANGLADESH EXPERIENCE

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### Abstract

The study focuses on Bond market development in Bangladesh, an emerging market. The policy environment for bond market development in Bangladesh is studied with the initiatives by various sectors over the past decade (2001 – recent year). This paper also aims at understanding the hurdles Bangladesh is facing in developing its own local currency bond market over last decade. The study uses published secondary data from various relevant sources and the researchers have used personal observation and experience regarding the country's socio economic and political background and their impact on the bond market. Developing bond markets is more complicated than developing equity markets. They operate best when they have money market and longer-term benchmarks. Numerous factors suggest that Bangladesh could not develop an active, local-currency, and fixed-income market. The obstacles include improper regulations, unwilling investors and borrowers, lack of market confidence and ineffective infrastructure. The market participants in Bangladesh are skeptical whether the government can succeed in this endeavor. Because of large quantum of long-term fund requirement with the liberalization of the energy and communication sectors, major infrastructure sectors like oil & gas, power, telecommunications, shipping, airlines and port development, the government financing for such sectors would be lesser in the days to come. Existing financial system of the country does not have either the capability or the instruments to support these sectors. The rational alternative appears to be the Capital Market, and in our country there is only one Capital Market is known that is debt market which is not sufficient to cover these types of financial need. Bangladesh must drive to local currency bond market development.

**Keywords:** Bond market, capital market, economic development, intermediaries & market forces

### Introduction

Developing a local corporate bond market is a relatively new activity for many emerging economies, and insights from experiences are very limited. Development of local bond markets has become much talked about topic for decades in countries like Vietnam, Sri Lanka, Pakistan and Bangladesh. The current emphasis on local-currency bond market stems mainly from its risk-

management benefits. A growing number of emerging market countries around the globe are looking into the prospects of building local bond market to reduce the currency, interest rate, and funding exposures. But building a bond market is difficult, it takes a lot of time and not every country those persuaded was able to develop an active market. The reason lies on the fact that bond markets grow from participation by issuers, investors and intermediaries – not just from building the market infrastructure. Participation results when a fairly comprehensive range of economic, technical, as well as political and “behavioral” factors come together. Unfortunately, many of these factors, by definition, are not well developed or are in inappropriate level in emerging markets. In most of them the financial market is controlled by the parts of the government those may care little about developing bond markets, which further complicates the process.

In the starting this paper conceptualizes the market forces those play significant role in developing a bond market. It identifies the key success factors behind the development and the stages of bond market development. The paper critically evaluates the bond market development process in Bangladesh. At the concluding part this paper summarizes the major obstacles seen the development process of a bond market as Bangladesh has experienced.

### **Purpose**

In Bangladesh there are huge scopes of bond market. Capital market here is based on the debt market, and there are no proper infrastructures in the bond market. Only few companies are trading their long term debenture in the bond market. But a good capital market is a mixed basket of debt and bond, if only the debt market is boost up then an inequality in the country’s capital market emerges which is not good for improvement of a country’s financial structure.

Bangladesh must think about the bond market development as large quantum of long-term fund requirement with the liberalization of the energy and communication sectors, as well as the liberalization of government policies, major infrastructure sectors like oil & gas, power, telecommunications, shipping, airlines and port development are now open for the private sector, including international participation. This implies that government financing for such sectors would be lesser in the days to come. Existing financial system of the country does not have either the capability or the instruments to support these sectors. The rational alternative appears to be the capital market, and the country’s capital market is dominated by equity securities which is not sufficient to cover these types of financial need. For this reason Bangladesh must boost up the bond market in the capital market sector which might bring a huge scope for the country’s financial development.

This paper aims at understanding the hurdles Bangladesh is facing in developing its own local currency bond market over last decade.

### **Methodology**

The study uses secondary data collected mainly from the office folder of Capital Market Service Limited (Now NDB Capital) a full-fledged merchant bank an enlisted company of Dhaka Stock

Exchange (DSE) Bangladesh and the information collected from the central bank Bangladesh Bank including its' websites, monthly journals, and annual reports. In addition to this the researchers have used personal observation and experience regarding the country's socio economic and political background and their impact on the bond market.

### **Role of Bond Market in the Economic Development**

Developing economies heavily rely on foreign investments and debts for maintaining the pace of GDP growth. Foreign investment is clearly a plus for economic development but it does create certain risks. Since financial sector crises will never be eliminated and at least for many years to come, flows into emerging markets will be large in relation to the markets in which they are investing, any rapid outflow will create serious problems for the borrowing country. Emerging market countries must find ways to manage the risks, and hence benefit from international capital flows. They need to be able to reduce exposures to foreign-currency borrowing and also absorb the associated shocks and volatility, so that small problems will not escalate into broadly based social catastrophes, harming people who were in no way directly involved in the markets.

Borrowers want to rely on short-term, foreign currency funding because when their economy and local currency is strong, such borrowing creates a double benefit to their net worth: the borrower's liabilities fall while its assets and revenues rise. The turn over side is that when times turn bad, borrowers get a double hit on their net worth: liabilities rise and assets fall, causing strains and in some cases defaults. The solution to this problem is to use funding structures that have a neutral effect on net worth, as in the case of bonds. The difficulty lies in convincing borrowers that good times many turn bad, and in getting them to incur the potential opportunity cost from locking in stable funds and rates.

Issuing bonds can reduce the types of interest rate, foreign exchange, and refunding exposures and can help ensure that emerging market borrowers have more shock absorbers – more tools – to limit impact of those exposures. Local-currency bonds dampen the effect of crises created by international capital flows by locking in interest rates and local-currency funding. This allows borrowers to hold on to their funds and positions.

Emerging market countries have been developing local bond markets for the past 5 to 10 years, though at a slower, less focused pace. Any country that is liberalizing and growing economically needs diversified financing tools beyond just banks and equity market. Banks often cannot provide the size or structure of financing needed. In many countries today, banks are increasingly constrained from financing longer-term, large-scale projects because they are trying to improve the quality of their operations. Pressure from international agencies to contain credit extension (for example, via legal lending limits or provisioning for non performing assets) is limiting lending as well. Issuing new equity is not always an option, as it is costly and dilutes ownership. Local bond markets also support major trends that stem from economic and financial sector growth. For issuers, infrastructure development is creating demands for large-scale, longer-term funds that banks cannot often provide.

Privatization, securitization (particularly for housing finance), and decentralization of governments are all creating new financing demands. On the investor side, many countries are now rich enough for insurance and social security are creating institutional investors that need long-term assets. They want to keep their interest rate (fixed), reinvestment (long term), and local currency risks to manageable levels, with macroeconomic stability increasing in many countries, issuers and investors alike are more willing to lock in rates.

Local bond markets also strengthen the financial sector by encouraging greater transparency. Pushing companies to disclose in public markets and forcing them to better understand themselves and in turn improve their management. Bond markets create competition with the local banking sector, which can reduce lending rates. Ideally, countries should try to build both primary and secondary markets for bonds. Primary markets help in risk management by reducing interest rate risk, foreign exchange risk and reinvestment risk. Secondary markets, by adding liquidity and broadening the investor base help reduction of funding costs. As mentioned earlier, many countries are not yet creating secondary markets, and some will find it hard to develop public primary markets. Whatever the situation, reducing one or two of the three financing risks is worthwhile. Getting local-currency, fixed-rate, and long-term funds in a private placement may cost more than a publicly traded issue but it might be all that a country can do, and will reduce the issuer's risk, and allow the investor to lock in an asset.

## **Building Bond Markets**

Developing bond markets is more complicated than developing equity markets. Bond markets need supporting pricing infrastructure. They operate best when they have money market and longer-term benchmarks. Bond markets simply cannot grow as quickly as equity markets can because investors need to be sure that issuers have the cash flow to make interest payments and redeem principal. Furthermore, bond markets need more sophisticated market participants including dealers and market makers, which means a new class of intermediaries who can take position and also manage their risks.

### **Participation of market forces**

The three parties of bond market- issuers, investors, and financial intermediaries actively participate in a market when they see an economic benefit of themselves. Willingness (have the right attitudes) and ability (have the skills, regulations), and are structured set up of the industry enhance the active participation. The three elements of need, willingness, and ability drive on each another. And there are many factors which weaken and put obstacles to participate.

If the benefits of participation are clear and substantial, participants will be more willing to involve in activities like analyzing and disclosing information. If better skilled, they will be less fearful and more willing to enter the market. Market participation cannot be commanded or forced, but a facilitating environment can encourage it, and it can be discouraged by an "un-enabling" environment.

**Around, across and inside the market factors**

Kviback (2000) identified three types of interactive factors which may influence the bond market; they are around the market factors, across other parts of the financial system, and inside the market factors.

**Around the market:** These factors affect the market from outside and in general they portray the macro economic features of the country. Around the market factor includes a conducive environment consisting of macro and political stability, strong economic growth, moderate controlled inflation and a stable interest rate, debt encouraging tax policies, and a firm and wide legal coverage (e. g., securities law, bankruptcy protections, uniform codes, negotiable instruments, financial crime etc.) that substantiate debt market.

**Across other parts of the financial system:** These factors are part of the market but they are based on other sectors of the economy. The risk free governmental debts must be present to build a benchmark yield curve and a dealer community. Risk free bonds are also important to design a portfolio and diversify risk. Regular induced savings in the form of insurance and retirement benefit plan contribution ensures a steady inflow to the market and brings into a long run perspective to it. Well developed equity and money market, supported by efficient stock exchanges and speedy clearing mechanism help to boost bond market. Strong securities dealers bring confidence and make it familiar to the general investors. The banking sector as whole is a vast cross market set up that play very important part to the market as it takes many role in various capacities as investor, issuer and intermediary.

**Inside the market:** Regulators (mainly the Securities Exchange Commission commonly termed as SEC and similar establishments) are the most important inside factors to support and develop the market. Trading, clearing, and settlement systems determine the overall success of a bond market. Credit rating system, financial protection, debt protection laws influence the market's attractiveness to an issuer, investor, and intermediary.

**The Key Success Factors Around, Across and Inside the Market**

The success of developing a market depends on some key factors from inside the market and around it. The inside factors are appropriate participation by issuers, investors and intermediaries, and the commitment by the government. The around market factors are macro economic stability and successful taxation system. For the most of the developing countries, the deficient issuers and investors are the main stumbling block to develop a market. If a country has sufficient issuer and investor base, stable macro-environment, and firm governmental commitment yet the bond market development may be constrained for the lack systems across the financial system like inefficiency the government debt market, banking sector, and equity markets.

**Market Participants:** An active bond market needs diversified borrowers with varied credit risks representing different economic sectors. Investors should also be diversified and composed of institutions like pension funds, insurance, companies, mutual funds, and other foreign investors

interested in diversified credit risk and economic sectors. Active intermediaries are needed to get issuers and investors together. They will make money from the business with the ability to take and manage the risks, and must be able to perform in the long run. There should be a good number of firms to create a competition but the number will not be that big so that the market dampens and it becomes difficult to make enough money. The industry dominance should be taken by several independent securities firms and not by banks as they can constrain the operations for their credit performance.

**Government commitment:** The government needs to take the lead role to make regulators (SEC and others) committed to build the market by bringing together key market players. It is also a prime role of the government to build systems mechanisms and lobbying with outside regulators and leaders. The level of commitment determines the pace of the market growth and in the absence of an inside governmental commitment, the market is least likely to grow.

**Macroeconomic stability:** Stable macro and political environment is essential for a bond market to grow. Without a healthy GNP growth, high savings and investment rates the economy might not provide the issuers and investors needed to warm up the market. Inflation and interest rates should be predictable and affordable. High interest rates can slow issuance by creating an unaffordable cost. Volatile rates may stop issuers and investors from locking into a rate.

**Taxation:** Taxation is a well-known for its potentiality to destroy a market by directing financial flows or by changing relative costs of different types of borrowing. Bonds do not need to get preferential treatment, but they cannot operate at a disadvantageous situation as compared with alternative products such as bank loans and equity. Taxation can also take other names like stamp duties, transaction taxes; and income taxes on the cost of issuing, investment returns, and intermediation of profits.

**Government debt market:** The government debt is an important ingredient for the corporate bond market. It provides benchmark for the yield curve and helps in promoting dynamic, profitable fixed-income dealer class. Without adequate governmental borrowing at a fixed rate, the interest rate structures tend to be undernourished, particularly for the instruments with long term maturities, and very much limited high-quality credit alternatives exist. Government debt also provides dealers exposure in trading fixed-income securities and a fair possibility of earning profits. It is essential in obtaining a better priced financing from banks and financial markets.

**Equity and money market:** A full fledged equity market is essential for bond market development. It is important for the new comers to the market to be confident that the country has a "capital markets culture" with all the supporting institutions. With functional stock markets in the economy, issuers are familiar with disclosure challenges, investors have general understanding about the meaning of investing in securities. In such an environment money markets can provide short-term pricing benchmarks rates which provides dealers less risky trading experience.



**Banking System:** Commercial banks support bond issuance indirectly, when their lending is constrained like capital inadequacy, legal conditions, sector limits, and so on. Banks also participate directly by acting as issuers, investors, and intermediaries. Commercial banks dominate in forming markets as frequent investors. They can enhance market development buying and holding securities. Banking system can halt the pace of bond market if there are preferential tax treatments for banks and special regulatory network is offered to protect them from bond market competition.

**Credit-Rating Agencies:** Credit-Rating Agencies (CRAs) need to be credible, independent, and able to obtain information. They also need to be profitable otherwise they will not survive. To survive CRAs need enough deal flow or they will have to charge high fees. Both the approaches may affect bond market adversely. It is crucial to have sufficient CRAs with having minimum cost and other adverse impact on the market

### **Market development stages**

No two countries have the same condition in inside and out the market but in general the bond market development takes three stages:

**First stage:** The first stage consists doing one-off transactions – where an issuer needs local-currency loan for long-term funding. This is matched up with the investor need of a long-term investment in a limited private placement market. It is generally characterized with limited number of issuers and investors, unskilled intermediaries, and relatively underdeveloped capital markets. In the first stage markets the government securities are essentially undeveloped and underutilized. Setting prices would be a problem, as there will be no benchmarks. The issuer and investor want to limit the bond maturity and use floating rates because both the parties are afraid to lock in fixed rates in absence of a benchmark. The bond transaction is more expensive than a public share offering but it is the only way to obtain longer-term local-currency loan for the time being. It reduces some refunding and currency risk but retains interest rate risk.

**Second stage:** The bond markets of second stage involve building a good primary market for public and privately placed issues. It takes place in a country having quite a lot of attractive issuers, a growing but still inadequate investor base, developing stock markets, and a fair macro-political environment. The country of stage two needs public company supports and disclosure regulations. A credit-rating agency support in trading is highly sought. Having a benchmark, even a limited one, is useful for pricing bonds with longer maturities.

**Third stage:** Third stage involves launching secondary markets dedicated for bonds. The country must have sufficient issuers and investors and skilled intermediaries, with a supportive macro-political environment. An established government debt market is in force that provides a foundation for pricing new issues, and other elements of the financial market.

### **Bond Market Development in Bangladesh**

The macro economic condition of Bangladesh was fairly strong over the last two decades with growth rates averaging a respectable 5% and inflation averaging a modest 9-10%. The first decade

since its independence in 1971 was marked by slow growth and food insecurity. But till then it has shown many significant improvements. The primary fiscal deficit during the past five years has averaged about 5.5% of GDP, which has generally been within sustainable limits. (However, the consolidated public deficit, taking into account losses incurred by state-owned enterprises, is much higher and underscores the need for improved fiscal management, although foreign exchange reserves have become more stable recently owing to impressive export performance specially man power exports and reduced imports). Heightened foreign investor interest in the country's natural gas sector has opened up tremendous fund flow possibilities. The following table-1 of Foreign Direct Investment (FDI) from 1972 to 2006 easily portrays the possibilities in Bangladesh.

<i>Period and political regime</i>	<i>Allowed Amount of FDI in Bangladesh (Amount is considered by US Dollar(\$) in Million)</i>
1972 - 1976	14.11
1977 - 1981	9.48
1982 - 1986	58.27
1987 - 1991	195.86
1992 - 1996	297.78
1997 - 2001	1675.39
2002 - 2006	2388.15

*Table 1: Historical Information of FDI in Bangladesh*

*Source: Board of Investment (BoI), Bangladesh Government*

### **The domestic capital market**

Numerous factors about Bangladesh today suggest that Bangladesh could not develop an active, local-currency, and fixed-income market. Economic and financial transactions are highly regulated, and till today the economy does not provide a sufficient number of appropriately structured and skilled issuers and investors. Although the government began privatizing selected state-owned companies and deregulating the financial market for more than a decade, the progress is slow. It leaves the market participants sceptical whether the government can succeed in this endeavour.

Bangladesh with its drive to make a lively stock market could benefit from having a local-currency, fixed-securities market like other emerging-market countries. At present, the major fixed income instruments are bank deposits, bank loans (fixed deposits), government savings certificates, term loans, treasury bills, government bonds and corporate debt. In general the corporate debt market is still very small compared with the equity market and it is dominated by syndicated loans via private placement and debentures.

<i>Investments</i>	<i>Nominal Amount (Taka billion)</i>	<i>Relative size (%)</i>
<i>Bank Loans</i>	682.00	38.98 %
<i>Deposits</i>	717.00	40.98
<i>Government Savings Certificate</i>	170.00	09.72
<i>Government Bonds</i>	40.00	02.29
<i>Treasury Bills</i>	76.00	04.34
<i>Equity (market value)</i>	64.00	03.65
<i>Debentures/Bonds</i>	00.67	00.04

Table 2: Instruments Available in Bangladesh

Source: Bangladesh Bank, National Saving Bureau &amp; Dhaka Stock Exchange Report (2005-2006).

(Provide by CMSL, merchant bank, Now NDB Capital)

The equity market: Despite the limited role of capital market in the economic development, the equity market in Bangladesh has shown an upward trend over last decade. Bangladesh has two well known stock markets which are getting popular among the investors, namely Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE). The Market capitalization of these two similar markets amount nearly 20% of the country's GDP (the market capitalization 2008 is 964.9 billion taka and GDP in 2008-9 is 6149 billion taka), (Bangladesh Bureau of Statistics).

	2003- 2004	2004- 2005	2005- 2006	2006- 2007	2007- 2008	2008- 2009
<i>Securities Market (DSE)</i>						
<i>Number of listed securities *</i>	60	267	259	277	281	294
<i>Issued equity and debt (billion Tk)</i>	36.1	46.8	52.8	64.7	83.7	109.0
<i>Market capitalization (billion Tk)</i>	69.2	142.4	213.0	205.3	412.2	964.9
<i>Turnover (billion Tk)</i>	30.6	24.8	74.1	46.0	164.7	543.2
<i>General price index</i>	830	1319	1713	1340	2149	3001
<i>Listed Mutual Funds</i>						
<i>Number of mutual funds</i>	10	11	12	13	14	14
<i>Market Capitalization (billion Tk)</i>	.05	0.8	1.3	1.2	3.3	9.5
<i>Bond Market</i>						
<i>Number of listed bonds</i>	8	8	26	34	52	93
<i>Government</i>			18	26	44	84
<i>Corporate</i>	-0-	-0-	-0-	-0-	-0-	1
<i>Debenture</i>	8	8	8	8	8	8
<i>Market Capital (billion Tk)</i>	0.5	0.5	12.2	20.6	80.2	178.9

Table 3: Indicators of Capital Market Development

Note: \* includes debentures but excludes government bonds. Of the total number 231 are listed in CSE as well. Only four securities are listed in CSE but not in DSE.

*Source: Monthly Review, various issues Dhaka Stock Exchange*

The above table portrays that despite of a reasonable growth in the equity market, the performance of debt and bond market is quite sluggish.

### **Government initiatives in developing a bond market**

Government of Bangladesh has taken a number of initiatives over the last few years to develop an active secondary bond market, as a part of its Capital market development plan. Considering the current situation in Bangladesh, while there is not even an active primary market, such an initiative is quite challenging. The major steps taken by the government during the past decade includes:

**SEC Registration of CDBL:** Central Depository of Bangladesh Limited (CDBL), the long hibernating proposed depository system conceived to initiate script less securities trading, succeeded to obtain a conditional registration from the Securities and Exchange Commission, such a depository system was of urgent need for an efficient secondary market. The system reduces the chance of fraud or duplication of securities and thus provides infrastructure support as well as keeps investor confidence.

**Approval of Country's First Credit Rating Company:** The SEC has approved country's first credit rating agency named Credit Rating Information and Services Ltd (CRISL) in November, 2001, a long demand for an efficient secondary market. A reputed and trusted credit rating agency helps in maintaining the investors' confidence, provides valuable information about risk factors associated with a particular company or issue and make the investors' base broader. It also assists in calculating the risk premium and thus helps the issuers as well as investors to determine the coupon rate structure.

**Axing of Interest rate on Saving Certificates:** Government massively slashed the interest rates on some savings certificates by 1.5 to 2% annually with a hope that a decline in the income in nontransferable government securities will encourage the investors to invest more in commercial fixed income securities, which in turn will increase the demand for commercial bonds. This will ensure high bond market participation. .

**Divestment of State owned enterprises :** The government has divested the state owned enterprises (SoEs) held under three corporations namely Chemical Industries (BCIC), Sugar and Food Industries (BSFIC) and Steel Engineering Corporations (BSEC). So far 115 SoEs have been divested out of a total list of 228 SoEs (Bangladesh Bureau of Statistics). These enterprises were mostly financed through loans from National Commercial Banks even though many of them were loan defaulter. The divestment procedure required that the enterprises to go for public and thus, the supply of securities in the market increases. The increase in the supply of securities also strengthens the secondary market activities.

**Repurchase Agreement (REPO) Permission:** The central bank of Bangladesh has introduced the much awaited money market instrument, Repurchase Agreement (REPO) in mid 2002. This allows

commercial banks and financial institutions to sell treasury bills brought from the central bank. The REPO is expected to strengthen a secondary money market ultimately and ensure a better liquidity management. In absence of effective money market mechanisms liquidity crunch often disturbs the banks and financial institutions and they were forced to dispose securities at discount rates to the central bank to overcome temporary liquidity problems. With the introduction of REPO, they will now be able to sell securities at market rates and lend to smaller banks without risking the principal.

T-Bill auction opened for public: In a landmark move the central bank has opened the treasury bills of various terms ranging from 28 days to 5 years to resident individuals and institutions (Bangladesh Bank Bulletin October-December 2002). Apart from banks and financial institutions, any individual or institution through their respective banks can take part in the weekly auctions. Besides, institutional investors will also be allowed to put their provident funds in long-term treasury bills (2 to 5 year). Provident funds have earlier been barred from investing in government saving instruments from 01 July 02 (Bangladesh Bank Bulletin October-December 2002). This could very well be a prelude to the establishment of a secondary market of government securities and help to develop of a long-term yield curve.

DSE moves to activate secondary bond market: The country's premier stock market has recently formed a four member committee, which is planning to sit with primary dealers to persuade them into putting price quote on the secondary market. Since the launch of debt securities on the DSE in 2005, only one Treasury bond has so far been transacted on the secondary market. Even the market sees no price quotation of such bonds. The main reason behind this situation is that the primary dealers are holding the bonds as statutory liquidity reserve (SLR). Presently the financial institutions have to keep 13 percent of their total deposits as SLR (Bangladesh Bank Bulletin January-March 2009). Sonali, Janata, Agrani, Prime, Uttra, Jamuna, Southeast and NCC banks and IDLC are the primary dealers of the treasury bonds. In 2006, the DSE held a number of meetings to persuade the primary dealers into taking active role in the secondary market for bond transactions through the DSE. However, the DSE could not motivate the primary dealers much to place two-way quote for bond in the exchange system.

A total of 49 government treasury bonds have so far been listed on the DSE. Listed bonds are of three categories having five year maturity period with 7.5 percent interest rate, ten year maturity period with 8.5 percent interest and fifteen year maturity period with 14 percent interest rate (The New Nation October 28, 2007).

## **Major Obstacles to Bond Market Development**

The obstacles towards bond market development in Bangladesh can be seen into three broad categories as Kviback (2000) identified: those around, across and inside the fixed-income markets:

### **Around the market obstacles**

Bangladesh, since its inception almost forty years back, is not enjoying political stability. Governance and accountability are lacking in certain areas, and there are elements of inefficiency in

the financial system, mainly concerning the state-owned banking sector. In addition, certain commercial and financial regulations are outdated in that they tend to focus on institutions rather than functions. Although the government is aware of these problems, it has been slow to improve governance and develop strong institutional capacity. The problems are created by these weak institutions are compounded by an increasingly confrontational political environment. The obstacles in this group stems from the political situation, the macroeconomic situation, legal framework and the broader financial system.

**The revengeful and overcharged political situation:** The politics of Bangladesh has been highly polarized into two of its past leaders' image. One group believes in secularism and other group believes in nationalism but also rejects secularism. So the political deviation is clearly visible in almost every sector in the country and all actions taken by the government. Though there are other small political parties and ideologies they are yet to take any significant power in the politics of the country. Like other small countries the third power, which is always in the lime light, is the armed forces of Bangladesh. Powerful governments' preference of few foreign countries and their diplomatic mission in Bangladesh also become the decisive factor since liberation. All these aspects often come into force together at once and the country looks at a random walk where the long term vision is either absent or faded. It is a serious stumbling block for having an own successful capital market with active players for the country.

**Macroeconomic failure in capital formation:** The economy of Bangladesh continues to be agriculturally based; agriculture accounts for nearly 19% of the country's GNP (CIA, World Fact book), and more than 60% of labor force is engaged in agricultural activities (Center for Policy Dialogue (CPD) survey). The industry and service sectors contribute 28.7% and 52.3% respectively (CIA, World Fact book), but compared with landholdings, the average size of industrial and commercial enterprises is rather modest. Bangladesh's macro economy was fairly strong since the 1990's with growth rates averaging a respectable 5% and inflation averaging a modest 9-10% (Economic Trends, September 2009). The primary fiscal deficit during the last decade has averaged about 5.5% GDP (Economic Update, April 2010), which has generally been within sustainable limits. The consolidated public deficit, taking into account losses incurred by state-owned enterprises, is much higher and underscores the need for improved fiscal management, although foreign exchange reserves have become more stable recently owing to impressive export performance specially the non traditional exports and service exports.

To foster market development Bangladesh is trying to bring more competition into the financial sector through deregulation and privatization. With the hope that deregulation of interest rates and privatization of state-owned enterprises will enhance the demand for public fund and thereby, will create more opportunities for investment. But the pace of change is very slow and their impact on the market is very hard to see. The problem intensifies due to per capita income and poor saving as well as investment rate. The country's per capita income is too low compare to world standard. According to the World Bank Global per capita investment is about \$1350 (approximately in 2004-2005) while

Bangladesh reached to only \$7(Economic trends 2009). For a country having such a poor investment capacity it very hard to improve the speed of capital market installation and it is the toughest barrier for a local market. .

Outdated legal protection and regulations: Bangladesh's laws represent a mixture of codified British common law and legal principles from various religious heritages. Although the court system derives from a common law tradition, Bangladesh courts are limited in their ability to function effectively. Most of the laws of the country are inherited by the British rule or slightly modified version of that, which are grossly inadequate for a country in this dynamic environment. The law and legal sector reform was in the agenda for long time but with no or little success. The legal system can move only so fast in amending the laws and enacting new ones, but implementation is not happening. Even though the government acknowledges the need for such changes, the contract laws and commercial codes seem to be fair, but ensuring that they are observed is difficult because of a weak adjudication system. This fragile legal system very hardly provides any legal security or protection for the borrower and especially to the lender. As a result the citizens of Bangladesh become very skeptic over market lending and borrowing rather they prefer to surrender to a banker.

#### **Across the market obstacles**

The three important ingredients across the market are money market, governmental securities market and, financial system as whole. Among them the financial sector is dominating in Bangladesh where the commercial banks play a vital role.

State dominated banking sector: Banking system is controlled the state-owned nationalized commercial banks (NCBs). It has created two serious problems for a local corporate bond market. First, the system provides low cost loans to state owned enterprises compare to their credit risks, which account for a large part of the corporate sector. This undermines development of the corporate bond market, because other financial institutions are unable to compete with these "under-priced loan". Indeed, the state-owned enterprises constitute a large part of the NCBs business. To complicate matters, development financial institutions also provide low-costs loans, priced at a small percentage over bank deposits for similar maturities. Second, the banking sector is faced with a substantial number of bad loans; non-performing assets account for about 32% of total assets (Scheduled Banks Statistics, October-December 2009). Although these non-performing assets can be said to create a need for an active bond market, to the extent that banks are constrained in new lending and thereby cannot meet the funding needs of corporate borrowers, they also rob the bond market of needed investors. Despite of the effort made by the past three governments over last two decades the state-owned banks just keep on making bad loans.

Imperfect non-banking sector: The non-banking portion of the financial sector consists of two small stock exchanges (Dhaka and Chittagong), both of which have still not recovered from the bull market problems of 1996, which left the public suspicious of corporate institutions because it is hard to get them to disclose their figures. At that time, the stock exchange experienced a heavy run-up in prices owing to a large inflow of funds from retail investors. This inflow, drawn by the prospect of easy

money, was a new experience for the Bangladeshi people, but it lasted only the second half of 1996 in those six months the index soared from 500 to 3500 and the market came crashing down to about 600. In the period 1996-2005 while the global stock markets have taken a beating due to the economic recession, both the DSE and CSE has performed reasonably well. According to Bloomberg, the New York-based prestigious information services company, the DSE was the fourth best performing exchange in the world on a currency adjusted basis in 2008. According to the 23 world indices, the Dhaka Stock Exchange has performed the best in comparison with the other important stock exchanges (Annual Report, Dhaka Stock Exchange 2007-2008). The index has in early 2010 crossed 5000 mark ([www.dsebd.org](http://www.dsebd.org)) with an average daily turn over of 20 billion taka (the local currency, 70 taka = 1 USD). But this success is not helping to form confidence in the market because the rates and transaction volume are always fluctuating with the suspicious moves by few large investing houses. It is widely believed that the stock prices are manipulated here on purpose and the market imperfection is very high. In sum, the non-banking sector has not evolved in a way that would allow it to pay an active role in the financial system. Nor is it prepared to play an active and skilled leadership role in developing and participating in an active fixed income market.

**Inadequate government securities market:** The government securities market in Bangladesh is relatively small, does not provide much of a yield curve to support a corporate bond market, and does not provide intermediaries with skills and a profit base to support the corporate bond market. The different "Saving Schemes" has become a major source of fund for the government. They are open ended and have gained enormous popularity among the middle income bracket, due to flexibility in matching the savings and expenditure pattern of the middle class and the high rate of interest being offered.

Government savings certificates (GSCs) range in maturity from three to eight years. Government savings certificates are offered to different types of investors in the retail sector (but small corporate are allowed to invest). The types of investors are mostly individuals and families but also include charity and provident funds. Government savings certificates are issued in series through the year. The holder may redeem them at par at any time. Three-month interval profit-based savings certificate offer as high as 11.50% effective rate which has reduced from 14.20%. Savings certificates with half-yearly, quarterly and monthly interest payments also have received tremendous response. The Wage Earners' development bond is also popular with the expatriate Bangladeshis.

### **Inside the fixed-income markets obstacles**

Bangladesh finds it difficult to move forward for several reasons: weak governance at the institutional and market levels; high non-performing assets among the nationalized commercial banks (NCBs); poorly defined and overlapping responsibilities and objective of the Bangladesh Bank, Securities and Exchange Commission, and Ministry of Finance; and the lack of incentives and private initiative to drive market developments. These are the principal obstacles to the development of bond markets in Bangladesh.



Overlapping regulators and inadequate regulations: One hurdle at the regulator and regulation level is the overlapping objective between the two financial market regulators, the central bank of the country Bangladesh Bank (BB) and the Securities and Exchange Commission (SEC), has no clearer jurisdiction over the fixed-income market. In general, BB regulates the commercial banks and their activities, while the SEC regulates the Non-Banking Financial Institutions i.e., the two stock exchanges and the capital market. However the SEC has no authority to issue rules and regulations, other than direct secondary securities dealings and the procedure as whole is long and drawn out. As a result, although the SEC requires listed companies to meet international standards on accounting and auditing, accounting information appears to be of doubtful quality and reliability, it has not proposed any regulations for the issuance of bonds or debentures. All the rule proposals must first be submitted to the Ministry of Finance for approval and then passed on for approval from Ministry of Law. Furthermore, potential issuers have to look at various sets of regulations and follow a long and cumbersome procedure.

The Securities & Exchange Act of 1993 confers vast regulatory authority on the state, and is regarded as a constraint on capital market development. There is a board of policymakers. Three of its members are appointed the state, another is from the Ministry of Finance and one from the Central Bank, and the chairman is appointed by the government.

Inefficiency in central market infrastructure: In the absence of a secondary market in fixed-income securities, no effort has been made to build up a central market infrastructure to support it. Bangladesh only has a telephone market for T-Bill trading and central market infrastructure at the stock exchange for trading equities and debentures. In the T-Bill market, the counterparts call each other and settle transactions without any transparency in real time for other participants in the market. At the stock exchange, the debenture market is fully automated. The debentures market has a somewhat more transparent order-matching system in that bids and offers are entered in the computer and then matched automatically.

Absence of reliable credit rating system: Country's first credit rating company, Credit Rating Information and Services Ltd (CRISL) obtained approval from SEC in November 2001, after long six years of procrastination and wrangling of the regulatory body, which led to litigation. But this organization is not famous yet and unfortunately, even after nine years of establishment, the agency hasn't yet been active. It implies that companies are not willing to get their credit rating, most probably because of their poor credit quality that may be exposed to the investors. Thus the credit rating agency is facing hard time to be profitable. Market participants are still referred to other media, such as the daily financial newspaper, and thus experience a delay in obtaining essential economic information. According to some participants even that the information is often unreliable.

Issuers: The foremost impediment here is that Bangladesh lacks a significant number of potential, good-quality issuers. Most private sector enterprises are small and owner-run; many are of cottage size and most are in the garment industry, which depends largely on short-term bank loans for financing. These enterprises could benefit from longer-term funding but are neither large enough nor

well known enough to issue bonds. Most of the large-scale industrial units and commercial enterprises are state owned. Their shares are not listed, and they do not offer debentures since their financing needs are met by the government or by the state-owned NCBs. These state-owned firms generally stay outside the capital market. The privatization program for state-owned companies is working too slowly to influence the market.

For ensuring sound financial condition of the company prudent businessmen often design their capital structure with a reasonable mix of debt and equity capital. If a company uses too much borrowed capital, it becomes vulnerable to financial risk. It appears that many listed companies did not issue bonds because they preferred equity capital and their share issue was enough to meet their funding needs. Among the other reasons were- the bond issue would impose too much of an interest burden on the company, the bank loans are more attractive and easier than bond issues, company policy does not permit to issue bond and they do not need to issue bond.

Although Bangladesh has a small debenture market, to date only a small number of well-known issues have used the market. The liquidity in those debentures at the stock exchange is insignificant because of the small number of investors and their buy and hold mentality. The investor community does not seem to find this market too attractive owing to weak disclosure by the issuers which in turn reduces credibility and investor confidence.

## Conclusion

Although there is not a meaningful base for a secondary market of corporate bond today, the Bangladesh economy may well grow at an attractive rate in the future, and if it does, capital-intensive industries such as gas and telecom will invest heavily. Thus Bangladesh will eventually need an efficient capital market that can mobilize domestic and foreign resources for investment. For the time being, however, Bangladesh should focus on creating a well regulated, and attractive primary market in both public and private placements.

Like Bangladesh most of the developing countries are facing numerous pieces missing for building their bond markets and want to know what steps they should take to build their market, not just where they need to end up. This discussion made is about some of the impediments to the development of fixed-income market in Bangladesh and some ways to remove them. Clearly, a market needs issuers and investors. As obvious as this sounds, a surprising number of countries have pushed forward to build markets despite the lack of these players. Steps are hard to map out, since no two countries will have the same combination of pluses and minuses and political and behavioral conditions. Few emerging market countries provide extensive examples yet. A reform is necessary in Bangladesh for all the across the market, inside the market and around the market factors. A regulatory reform must be taken to get the borrower-investor trust. Further study is essential to portray some specific guidelines to ensure those reforms which ultimately enhance the market participation and foster the development of a local currency bond market.

## Biography

Md. Shahriar Parvez has earned MBA (Finance & Banking) after his BBA (Finance, Banking & Insurance) from Southeast University and City University of Dhaka respectively. For last one year he is teaching finance and financial management courses at the undergraduate level.

Wazir Ahmad teaches accounting and finance courses over last twelve years at both the graduate and undergraduate level. He has served three reputed Universities in Bangladesh in his teaching career. Wazir has earned his MBA (Accounting CPA Track) from RIT, Rochester, NY.

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## Appendix A: Bangladesh Economy

The economy has grown 5-6% over the past few years despite inefficient state-owned enterprises, delays in exploiting natural gas resources, insufficient power supplies, and slow implementation of economic reforms. Bangladesh remains a poor, overpopulated, and inefficiently-governed nation. Although more than half of GDP is generated through the service sector, nearly two-thirds of Bangladeshis are employed in the agriculture sector, with rice as the single-most-important product. Garment exports and remittances from Bangladeshis working overseas, mainly in the Middle East and East Asia, fuel economic growth.

GDP:	\$208.3 billion (2007 est.)
GDP growth rate:	6.3%
GDP per capita:	\$1,400
GDP composition by sector:	agriculture: 19% industry: 28.7% services: 52.3%
Labor force:	66.6 million <i>note: extensive export of labor to Saudi Arabia, Kuwait, UAE, Oman, Qatar, and Malaysia; workers' remittances estimated at \$1.71 billion in 1998-99</i>
Labor force by occupation:	agriculture: 63% industry: 11% services: 26%
Unemployment:	2.5% (includes underemployment)
Budget:	revenues: \$5.993 billion expenditures: \$8.598 billion
Industries:	cotton textiles, jute, garments, tea processing, paper newsprint, cement, chemical fertilizer, light engineering, sugar
Electricity production by source:	fossil fuel: 93.7% hydro: 6.3% nuclear: 0% other: 0%
Agriculture:	rice, jute, tea, wheat, sugarcane, potatoes, tobacco, pulses, oilseeds, spices, fruit; beef, milk, poultry
Exports:	garments, jute and jute goods, leather, frozen fish and seafood
Export partners:	US 24.2%, Germany 13.2%, UK 10.6%, France 6%
Imports:	machinery and equipment, chemicals, iron and steel, textiles, foodstuffs, petroleum products, cement
Import partners:	India 14.7%, China 14.6%, Kuwait 8%, Singapore 6%, Japan 4.4%, Hong Kong 4.1%
Economic aid recipient:	\$1.575 billion
Currency:	taka (BDT)

SOURCES: *The CIA World Factbook, U.S. Department of State, Area Handbook of the US Library of Congress*

## **BUSINESS EFFICIENCY OF THE AGRICULTURAL COOPERATIVES: THE CASE OF THE SAFFRON PRODUCERS' COOPERATIVE OF KOZANI**

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### **Abstract**

The European countryside trying to redefine its role in the new circumstances and rural areas is facing an unprecedented combination of opportunities and threats associated with the exploitation of local, traditional agricultural products. The importance of agricultural products, especially those that are PDO products (Protected Designation of Origin), has preoccupied the European Union which moved to the adoption of Regulation 2081/92, as amended by Regulation 510/2006. With these Regulations it is intended to protect agricultural products or foodstuffs, which are distinguished by their geographical origin and the original features they present.

In Greece, the organization of rural areas differs significantly from the known models that are dominant in Europe. Despite the continued community and government initiatives and interventions, it was not led to a form of technological, economic and social organization capable of transforming agriculture into "business". For most Greek farmers, agriculture is not a profession but a compromise, since the economy does not provide reliable alternative career prospects. Most agricultural cooperatives operate with outdated organizational schemes and are unable to attend the market processes. Many cooperatives are essentially idle or on the verge of bankruptcy.

In this complex and fluid economic environment there are some cooperatives which based on a PDO product appear to have modern forms of organization, implement up-to-date marketing methods, leading to reverse the distorted model and enhance their entrepreneurship and competitiveness.

The second half of 2009 a survey was held with questionnaires in the region of Kozani, which is the only region of Greece where saffron is produced. The survey was designed to study the Saffron Producers Cooperative of Kozani, which coordinates all phases of saffron production. The aim was to pinpoint the effectiveness and the strategies the cooperative is using in order to overcome business stagnation and to ascertain the degree to which this is achieved. The research was based on the Balance Scorecard Method. This method allows investigation of the effectiveness of the cooperative in light of four key aspects: the financial, the customer, the internal operation and the learning and development aspect."

From the analysis of the findings the positive entrepreneurial activities of the cooperative are identified, as well as the possible drawbacks. Conclusions are drawn about the "operative model" for a cooperative, able to conquer and maintain markets and increase competitiveness.

**Keywords:** entrepreneurship, rural areas, cooperative strategies, Protected Designation of Origin products, business efficiency

## **The Greek Agriculture**

Agriculture in Greece differs significantly from the known models that are prevalent in Europe (e.g. the Danish model, on which the Common Agricultural Policy, CAP of the EU, is based). Despite constant government interference, the regulatory role of the state has not led to a form of technological, economic and social organization capable of transforming agriculture into "business". Instead, interventions, historically, took the form of control rather than rationalized political assistance. The orientation of these interventions has been inspired rather by a strategy aimed to support the livelihood of traditional farmers than by a consistent and deliberate effort to modernize the agricultural sector. For most Greek farmers, agriculture is not an occupation but a condition they compromise with since the economy does not provide reliable alternative career prospects. In contrast to the anticipated results, EU membership did not mark the start of a restructuring process of agriculture in Greece. The hyperactivity - both at household and individual level - has become the rule, while the gap between a modernized, mechanized, intensive agriculture and a traditional, without significant mechanization, food agriculture has created multi-speed zones.

As shown by the survey, until two decades ago, employment in non-agricultural occupations used to supplement the income from agriculture. Today the trend has reached such proportions that employment in agriculture tends to be limited to an additional and often minor source of income. As for agricultural cooperatives, most of them operate on outdated methods of organization, they are unable to follow the market processes and there are many cooperatives which are effectively idle or on the verge of bankruptcy.

## **Farm Cooperatives**

Many agricultural cooperatives nowadays expand the areas of their business to adapt to the new conditions of global competition of the rural economy. In such an environment, the challenge for survival is the modernization with emphasis on quality, and export extroversion.

Historically the main business of cooperatives, either primary (local producer associations) or secondary (regional formations of associations), was the concentration and disposal of agricultural production in good prices for the farmers-members.

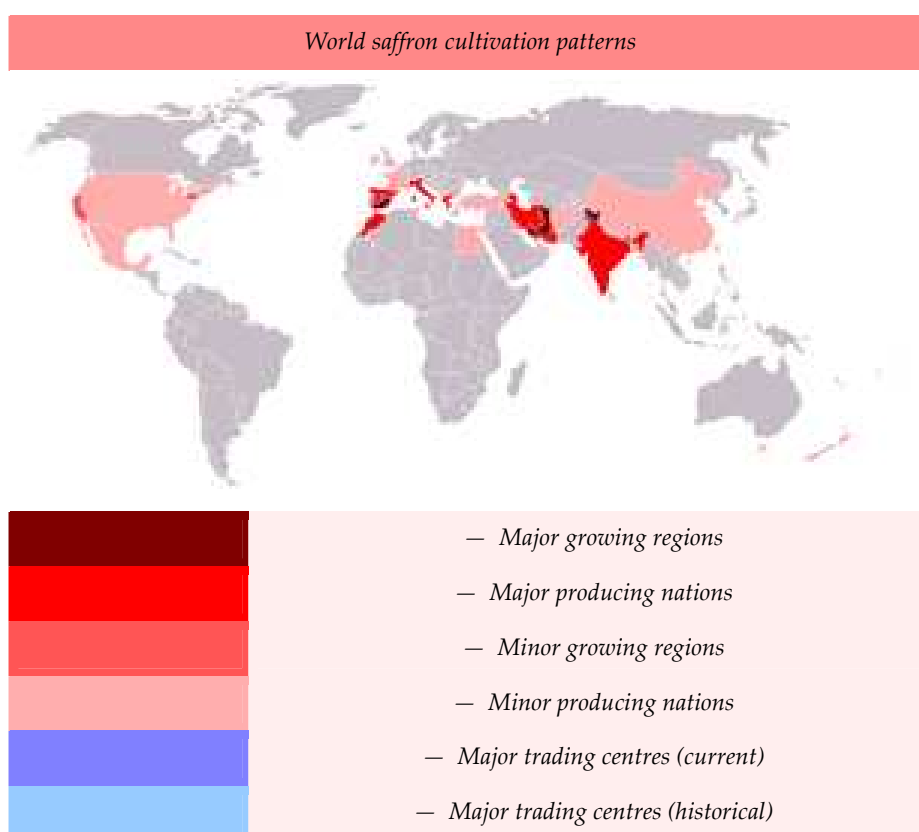
Today, however, agricultural cooperatives, utilising modern facilities, as well as new processing and packaging methods (standardization of production), are linked to the different distribution channels and participate in various promotional and marketing programs, so that, despite the organizational difficulties and the current economic circumstances, they expand their presence in domestic and international markets.

Of course, this does not mean that the cooperative agricultural production is experiencing its most prosperous period.

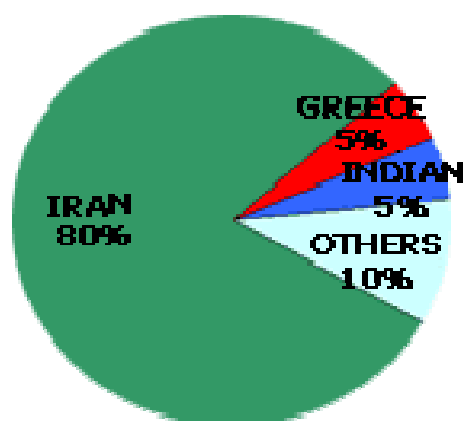
International developments show that a further "response" to the rapidly changing environment is the collaboration of partnerships with other companies to achieve viability in domestic and international markets (particularly after the complete "abandonment" of agricultural subsidies).

## Saffron

Saffron is a plant which one of the most expensive spices available in the world is produced from. Saffron comes from the pistil of the flower of the saffron plant, the scientific name of which is *Crocus sativus* L. which belongs to the family Iridaceae.



Saffron is mainly grown in a belt of land ranging from the Mediterranean in the west to Kashmir in the east. Annually, around 300 tons of saffron are produced worldwide. Iran, Spain, India, Greece, Azerbaijan, Morocco, and Italy, in decreasing order of production, are the major producers of saffron. Iran with its cultivation of different varieties is the largest producer of saffron with 93.7% of the world's total production. According to FAO statistics (2004), Iran is the number one exporter of saffron in recent years and Iranian saffron is exported to many countries.



*The graph is based on FAO statistics (2004).*

A pound (454 grams) of dry saffron requires 50,000–75,000 flowers, the equivalent of a football field's area of cultivation (110,000-170,000 flowers or two football fields for a kilogram). Some forty hours of labour are needed to pick 150,000 flowers. Stamens are dried quickly upon extraction and (preferably) sealed in airtight containers. Saffron prices at wholesale and retail rates range from US\$500 to US\$5,000 per pound (US\$1,100–11,000/kg)—equivalent to £2,500/€3,500 per pound or £5,500/€7,500 per kilogram. The price in Canada recently rose to CAN\$18,000 per kilogram. In Western countries, the average retail price is \$1,000/£500/€700 per pound (US\$2,200/£1,100/€1,550 per kilogram). A pound comprises between 70,000 and 200,000 threads. Vivid crimson coloring, slight moistness, elasticity, and lack of broken-off thread debris are all traits of fresh saffron.

## The Case Study

### The “Cooperative De Saffran” of Kozani

The Cooperative of Saffron Producers of Kozani was founded in 1966 and turned into the Compulsory Cooperative of Saffron Producers of Kozani in 1971. It is the exclusive trader and distributor of saffron for domestic and overseas markets. It counts about 1,700 members - saffron growers. The aims of the cooperative are:

- The coordination of saffron cultivation in order to increase production and improve product quality.
- The standardization and uniform appearance of the product.
- The collection and disposal of the product.

To achieve its objectives the cooperative can engage in any lawful activity, namely: to study the plant's cultivation, to educate and inform the farmers, to supply members with agricultural equipment and tools, to prepare and pack the product, to acquire facilities and machinery to assist in the processing and packaging of the product, to try to combat the disease by joint efforts etc. Today the cooperative is located in the village Krokos, the seat of the municipality of Elimeia, 5 km south of the city of Kozani. There lie its premises where the administration is also located.



Saffron trading is an important source of revenue for the region and it has formed a pole around which the local community has rallied in an effort to stay in the region and, thus, contribute to decentralization.

The Greek saffron is nowadays exported to countries such as Spain, Japan, USA, Germany, France, China, Switzerland, etc.

Issues successfully addressed by the cooperative:

- Increase in saffron production
- Increase of cultivated lands
- Ensurance of product quality
- Combating fraud in the product
- Packaging products

#### **Issues currently addressed**

- Large competition from other saffron producing countries that sell the product at ridiculously low prices. These countries, like Iran, are lagging considerably in quality issues and as a result there are significant differences in price.
- Quality competition (concerning trade organisation rather than product quality) from Spain. Spain has an organized management network of the saffron produced and can significantly affects prices.
- The Greek saffron is mainly exported unpacked. The importing countries can sell it as their own and thus benefit from the top quality of the product.

### **The Research**

#### **The identity of the research**

In the second half of 2009 a research was conducted in the area of the village Krokos of Kozani, which is the only region of Greece where saffron is cultivated. The survey was designed to reflect the contribution of the Compulsory Cooperative of Saffron Producers of Kozani in all the phases of production and marketing of saffron, to study the operating efficiency of the Cooperative, which coordinates all phases of saffron disposal, and find out by which strategies and to what extent they have managed to overcome business stagnation.

The survey was conducted on two levels. The first level included a field survey with in-depth interviews with the chairman of the Cooperative as well as a survey with questionnaires completed after personal interviews with members of the Cooperative and Presidents of Municipal Districts which constitute the area of cultivation of saffron.

The second level involved relating the findings of the field research to the literature review and the findings from a research conducted by Mr. Angelos Soldatos during the preparation of his

dissertation work on "Production and marketing of the Crocus (saffron) plant in the prefecture of Kozani" in 2005, which included completing 110 questionnaires in on-site interviews with saffron producers in the region.

At the second level, for a more objective assessment of the operating effectiveness of the Cooperative, the Balance Scorecard method is used roughly as the basis. This method is used for larger business units and requires the inclusion of a total of 25 criteria.

At the first level of empirical research an in-depth interview with the chairman of the Cooperative was carried out and 5 questionnaires were completed; two by members of the Board of the Cooperative and three by presidents of the municipal departments.

The questionnaires are structured in three sections of questions, each section containing specific questions.

The first section includes the identity of the respondent and the institution he/she represents and includes questions on the contribution of the Cooperative to the improvement of the production, sale price, promotion and distribution of saffron.

The second set of questions concerns the assessment of the role of the Cooperative in the distribution of saffron. Questions concern the disposal of production, cost reduction, distribution, the penetration into new markets, skilled personnel, etc.

The third section of questions is designed to capture the contribution of the cooperative in the local economy and development.

### **The findings of the empirical research**

After analysis of the findings of the questionnaires completed it is shown that:

- All respondents stated that the operation of the Cooperative was instrumental in improving the production of saffron.
- 40% of the respondents believe that the Cooperative has contributed very much to improving the production of saffron, while 60% consider its contribution very important.
- All respondents stated that the operation of the Cooperative was instrumental in improving the sales price of saffron.
- 40% of the respondents believe that the cooperative has contributed very much to improving selling prices of saffron, while 60% consider its contribution very important.
- All respondents stated that the operation of the Cooperative was instrumental in improving the promotion of saffron.
- 60% of the respondents believe that the Cooperative has contributed very much to improving the promotion of saffron, while 40% consider its contribution very important.

- All respondents stated that the operation of the Cooperative was instrumental in improving the distribution of saffron.
- 60% of the respondents believe that the Cooperative has contributed very much to improving the distribution of saffron, while 40% consider its contribution very important.
- 100% of the respondents stated that the Cooperative has ensured the availability of saffron in new markets.
- 100% of the respondents stated that the Cooperative was able to reduce the cost of production and distribution of saffron.
- All respondents agreed that the Cooperative is monitoring developments in the global market.
- 100% of respondents believe that the executives of the Cooperative are qualified and suitable for the distribution of saffron.
- In the section on dependence of the local economy from saffron, the answers vary significantly. 20% calculate dependence by 10%, 20% calculate dependence by 20%, 20% calculate dependence by 30%, 20% calculate dependence by 40% and only 20% indicate significant dependence of up to 80%.
- In the question regarding the positive contribution of the Cooperative on the local economy, the answers vary and deviate. 20% indicate the degree of contribution to be up to 30%, 40% indicate the degree of contribution to be up to 20%, 20% indicate the degree of contribution to be up to 60% and 20% indicate the degree of contribution to be up to 100%.

Moreover, the interview with the chairman of the Cooperative shows that:

- The most important actions taken by the cooperative in the course of forty years is to increase saffron production, to increase of cultivated land, to ensure product quality, to combat fraud in the product and the packaging of products.
- The relationship between members and the Cooperative is excellent; there is trust and understanding from both sides.
- The relationship of the Cooperative with the local developers is excellent and there is, on the part of the developers, support and assistance to a satisfactory extent.
- The Cooperative has not yet promoted the product very effectively and should endeavour to find distributors for the product in each administrative region of Greece.
- Only by improving the quality of Greek saffron can the huge international competition resulting from the large production of the corresponding product from Iran be addressed.
- The distribution network of the product does not work satisfactorily and there is room for improvement.
- Saffron can be promoted by means of advertising that has not hitherto been used, such as through television and other mass media to become widely known to Greek consumers.

### **The Effectiveness of the Cooperative by the Balance Scorecard Method**

The Balance Scorecard Method allows investigation of the effectiveness of the cooperative in light of four key aspects: the financial, the customer, the internal operation and the learning and development aspect.

#### **Financial evaluation**

The financial assessment in the case study of the Cooperative of Saffron Producers of Kozani is not conducted on private business unit criteria but on criteria of public interest. It appears that the Cooperative, which has the exclusive right to trade and distribute saffron, is important to the national economy as it has managed to cover 5% of the global market, it is export oriented since 98% of the product is exported (Spain, Japan, United States, Germany, France, China, Switzerland, etc.), brings about currency inflows, supports the local economy and society, contributes to the local development, promoting the identity of the region and raising the living standards of its members and local residents. Saffron trading is an important source of revenue for the region, both domestically and internationally, and it has formed a pole around which the local community has rallied in an effort to stay in the region and contribute to decentralization.

#### **Customer Perspective**

The Cooperative of Saffron Producers, in accordance with the general criteria, seems to have gained a stable market share, which is maintained. It tries to attract new buyers but does not seem to use specific methods to monitor customer satisfaction, which is where it profits from.

Considering the strategy of the Cooperative and its action plans in accordance with the criteria described as "performance drivers" it seems that the Cooperative sees to product quality by providing certificates of Protected Designation of Origin, Organic Farming and ISO 9002 Quality, which consolidated the product and ensured its quality. The cooperative has the whole responsibility for the promotion and advertising of the products. It participates in many trade fairs both in Greece and internationally. It is a very active member of the European union of Aromatic plants, "EUROPAM", where the chairman of the cooperative is vice president. In general, the cooperative's expenditures for advertising and promotion exceed a 5% of its annual turnover, i.e. they are in the range of 200.000-250.000 € per year. The cooperative is in a continuous search for expansion into new markets and in this effort the quality labels it possesses help in the products recognition and they actually serve as "passports" for the product.

#### **Internal-Business-Process Perspective**

In the internal-business process the Cooperative is examined in three main processes: Innovation – Operations - After sale Services.

Regarding the innovation process, it is reflected that the Cooperative has commissioned and conducted various researches to identify the size of the market, it implements measures to meet the needs of consumers and promotes new uses for the product. To this end, in 2007 the Cooperative created a company called "Products of Krokos, Kozani S.A.", along with Capital Connect and the

company "Korres Natural Products S.A." to create new products whose main ingredient is the saffron. Also, the promotion of saffron through pharmacies proves that planning and implementation of marketing strategies are taken into account in an effort to introduce the product to Greek consumers who will, thus, associate the product with its healing properties.

The operating procedure of the Cooperative shows continuous improvement, both on the part of producers and the part of customers. Due to the fact that the product traded is specialized, the Cooperative has not developed any after sale services.

### **Learning and growth perspective**

Since 1971 the Cooperative has endeavoured to improve the capabilities and skills of its producers/members (training sessions, information meetings, etc.). Having as criteria the three fundamentals: a) employee satisfaction, b) the tendency of workers to remain in the company's work force and c) productivity, it is ascertained that:

- working producers are satisfied with the operation of the Cooperative but not quite satisfied with the income obtained by their work.
- they remain in this job because they have no other business opportunity and do not wish their children to succeed them in this job.
- they have, in proportion with the seasonal nature of the product, good productivity.
- the administration of the Cooperative stimulates and encourages producers/members to undertake creative initiatives, since - due to the local nature of the Cooperative - they are all directly connected to the success of the Cooperative.

### **Summary - Conclusions**

The Cooperative, which has the exclusive right to trade and distribute saffron, is important to the national economy as it has managed to cover 5% of the global market, it is export oriented since 98% of the product is exported (Spain, Japan, United States, Germany, France, China, Switzerland, etc.), brings about currency inflows, supports the local economy and society, contributes to the local development, promoting the identity of the region and raising the living standards of its members and local residents. Saffron trading is an important source of revenue for the region, both domestically and internationally, and it has formed a pole around which the local community has rallied in an effort to stay in the region and contribute to decentralization.

In the course of forty years the Cooperative has successfully dealt with the increase of saffron production, the increase of cultivated land, product quality assurance, combating fraud in the product and the packaging of the product.

The main concern of the cooperative is the quality of the product. The Greek saffron is regarded as one of the best worldwide; hence quality is of great importance, as the unparalleled quality is a weapon that can lead to secure better prices. Important steps in this direction were taken by the Cooperative when they obtained a certificate of protected designation of origin for its products. This

achievement established the Greek saffron as a distinguished product among the products of other countries such as Iran and Spain.

An important achievement of the Cooperative was that it managed to impose strict organic farming for the entire yield of saffron. This helped to improve the damaged image of the product, which had significantly been affected by the fraudulence applied by irresponsible producers ignorant on commercial production rules in foreign markets. Another certificate the Cooperative obtained for its products, which helped improve its image and create relationships of trust with the consumers, was the ISO 9002 certificate.

Also, the Board of the Cooperative has assigned the control and certification of organic production to "Fysiologiki Ltd. controls, certifications for organic products", a company recognized by the Ministry of Rural Development and Food, aiming at better and more objective control of product quality.

The packaging is another area where the administration of the Cooperative has brought tremendous results. The Greek saffron is now packed with the best packaging in order to maintain its flavour and quality unchanged, and to protect the product from the weather and damage during transport. Indicative of the high standards achieved is the packaging prize the Cooperative won in January 2004, awarded in the contest "GREEK STARS" and is now eligible to participate in international competitions.

The administration shares a modern business culture and strategy which is reflected in innovative business partnerships. In 2007 the "Products of Krokos, Kozani S.A." corporation was established. 55% of the company is held by the cooperative and the rest by Korres Natural Products SA. Korres has undertaken the management and marketing of this new company. The aim is to create new products whose main ingredient is the saffron.

The new company represents a significant investment for the region, as it focuses on the fine production of the saffron of Kozani, highlighting the unique comparative advantages and ensuring significant growth potential through the creation of new jobs and significant capital inflows to local farmers. The company "Products of Krokos, Kozani" is the worldwide agent and promoter of Greek saffron in bulk or packaged with the exception of Greece, and is responsible for producing and promoting products and beverages by using the plant entirely or as part of a mix. The company's aim is to highlight the advantages of Greek saffron which is considered the best quality in the world and exploit the beneficial properties to create new products, while providing design services and promotions. A key objective is to further strengthen its position in Germany, France, Britain, Japan, America and Spain. The company's products are already sold in 30 countries.

## **Final Conclusion**

The Cooperative of Saffron Producers of Kozani constitutes a special cooperative business situation based on the exclusive management of the saffron, one of the most expensive plants in the world. The course and the business evaluation show that the strategy has been applied with high success rates.

The evaluation of business profitability by way of a Balance Scorecard shows that there are weaknesses in all dimensions, which are gradually being addressed.

It seems that the Cooperative is a different case in the Cooperative landscape of the Greek countryside and creates significant benefits for the Greek economy and the local development of its region.

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## ENVIRONMENTAL MARKET FAILURE AND GLOBALIZATION IN DEVELOPING COUNTRIES – CASE OF ALBANIA

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### Abstract

This paper presents an international view of sustainable development. The paper aims to provide an analysis on the link between openness to trade and economic growth and market failure like externalities. It focuses on the globalization process as the main factor for environmental problems. Albanian economy is exposed to a global economy and after twenty long years is still behind its Balkan neighbor. Albania is making the difficult transition to a more modern open-market economy.

International trade has been a major driver of global growth and prosperity over the last century. The empirical literature has taken one of two advantage points. The first one is to analyze the correlation between openness and growth in data sets that cover a large section of developing and developed countries, in the tradition of cross country growth empirics. The second one is to concentrate on country or region-level analytical case studies of economic growth. We believe that this framework will contribute to understand why certain developing countries have made progress, while others have not. Progress has been very impressive for a number of developing countries in Southeast Europe, but progress has been less rapid for other countries like Albania.

As a nation we have to think about what future research opportunities exist for us. The scale and scope of future research is an issue that affects our entire society and the next generation. The government has a general role in supporting this discussion, by setting up a dialogue with the community.

**Keywords:** globalization, developing countries, market economy, environmental, government role

### Introduction

The sensible character of the environmental problem has not been always materialized in a respectful behavior towards the environment. The pressures exerted by human activity upon the environment have continuously provoked mutations within it. The economic system, providing all the means necessary for a modern living standard, needs the support of the ecological system - which is not, actually, a reciprocal need. Environmental economy considers real economy as an open system, the operation of which requires extraction of the necessary resources from nature, their further

processing and returning to the nature of a large amount of the consumed and/or chemically transformed resources. But the effects of the economic activities upon the environment are both irreversible and cumulative [Musu L, 2003, p. 172], while the environment's quality influences the economic efficiency.

### **Globalization versus regionalization in international economy**

There are two processes that agglutinate the main phenomena of the world economy:

- a trend towards uniformity stimulated by productive, financial and communicative forces that configure the globalization process of international economy.
- a trend towards segmentation directed by a centripetal flow captured in the process of regionalization of the world market (CHESNAUX et al., 1993, pp. 10 and others).

The burden of evaluation is present in the first analytic positioning with regard to the gap opened between the simplified, self-indulging and triumphal viewpoint of international economy as a remarkable "global village" governed by trans nationalized capitalism (as F. Fukuyama would preach) and the relativist point of view, fundamentally skeptical, about an economic order at planetary scale considered as an "open work" (paraphrasing U. Eco) or as an object of chaotic processes (according to I. Prigogine). In short, the international economy has, therefore, a wide operational range between the "apotheosis of the market" and the "scenario of chaos". The growing globalization is causing a deep impact on international economic policy and not only due to the widespread influence towards the one that the proposed and/or applied economic policies are lined up. The regionalization process is, in many ways, a consequence of the standardization trend. The regionalization of the world market through commercial blocks constitutes, the guarantee of a full international economic liberalization, an objective that transcends the achievement of multilateralism and becomes one of the most active factors in the progress of civilizations. Actually, 75% of the world trade is carried out in the framework of regional agreements of the European Union (EU) and under the Mexico-U.S.-Canada Free Trade Treaty (NAFTA). Without denying the weight of the globalizing trend fostered by the interdependence, regionalization consolidates itself due to the growing dissatisfaction in the last stretches of the debate of Uruguay Round (U.R.) of the GATT; to the North American pretence in defining a commercial space of geostrategic interest; and to the institutional possibilities of a regional formulation of the world trade to represent its own interests in the future international calendar of multilateral negotiations.

The trend towards regionalization responds to the reaction of some countries in front of the final impasse of the U.R. of the GATT the uncertainty of which was overcome by U.S. through unilateral pressures, bilateral negotiations (as the agreements with Israel and Canada) or, even, with shared politico-economic actions of bilaterally transacted international trade (remember the parallel objectives of U.S. when its commercial deficit with Japan was negotiated). There is also the interest of an economic power as U.S. in forming its own commercial block with the formula of the "Initiative for the Americas" it is not only due to the commercial strengthening in front of the EU, the Southeast

Asia, Japan, and China P.R. but also to a geostrategic interest in promoting the economic growth of Latin America in a recessive phase of the cycle in which the freezing of inflow of new capitals in the region makes impossible the compliance with the service of the foreign debt accumulated from 1982 and does not guarantee the sociopolitical stability indispensable for the renewal of the declined contract of the "Alliance for the Progress" in the region.

In many aspects, the analytical contraposition: "globalization vs. Regionalization" is debate since the member countries of the international community practice a peculiar "polygamy in which it is attempted to combine the multilateral commercial interests and the requirements of regionalization. An interpretative line of synthesis has taken place, favored by multilateral institutions, in which the mentioned globalization and regionalization processes respond to a common casuistry. The international economic insertion is the result of a politico-economic decision-making process about a remarkable calculation cost-benefit on externalities. External economies, due to the acquired learning from imports of capital goods and of intermediate input with incorporated technology. On the other hand, export externalities that are those that take place in the moment of appropriately satisfying the compliance with the norms of the destination markets, the execution of technical and sanitary specifications, quality controls and the continuous challenges of distribution, commercialization and sale of goods and exported services and that their externalities can be generalized to the remaining processes, products and markets.

The trend to "globalize" the international economy at planetary scale by means of an intensified politico-economic interdependence and productive and financial trans nationalization as well as by means of a free-flowing circulation both of goods, services and communication that clashes, as we said, with another current, of not lesser strength, of "regionalization" of markets through diverse formulation (Asean, Mercosur) that date, the institutionalization of large economic areas of free trade that they accept the challenge of the international competition.

Among the extreme positions of both trends there exist "gray areas" where the specific experiences to be analyzed are located and that respond to a historical and political precipitate of synthesis that could be called as the analytic category "fragmented globalization" of the international economy. The development of this process is on one hand, the analytic relevance of the topic and, on the other, the existence of a considerable degree of uncertainty promoted by the unforeseen course of facts and trends of international economic policy. The long march towards freedom of international trade organized by the leaders of the current economic liberalism slips by a path smoothed out by the neoconservative ideological offensive and the breakdown of the real socialism in Eastern. The paradox appears when, it is necessary to explain the consolidation of regional fortresses of trade, authentic protectionist fortifications in front of third parties that are favored by the defensive neoliberalism of industrialized countries. It is not less surprising, that countries of advanced capitalism are especially fearful of the development of events.

The consolidation of fragmented trade blocks as "icebergs" in the heart of standardizing trends engenders new reasons of restlessness that are, for the social scientist, fruits of analytic interest. From

the international economic policy point of view, a practice of subtle is perceived on trying to condition the commercial agreements with restrictive clauses with the excuse of fighting against the “social dumping” or the “eco-dumping” when, in fact, there are not any political, labor and ecological convictions that could justify a sanctioning position beyond the mere protectionist intendance in the international trade.

### **Climate changes and its impacts**

Depending on the consideration of adaptation, everyone can distinguish between potential impacts and residual impacts of climate change. There are different impacts in the form of changes in:

- biophysical indicators (e.g., the primary productivity of an ecosystem, snow cover depth) or,
- socioeconomic indicators (e.g., the revenues from ski tourism, effects on the gross domestic product) (Füssel et al. 2006).

We can also see potential economic impacts as a function of the exposure of human (socio-economic) systems and their sensitivity to climatic stimuli. But most of these impacts will lead to economic costs, which are often known as the “costs of inaction” and they are very important to inform the policy debate on adaptation and to identify key areas of concern (EEA, 2007). Only a few studies exist on economic impacts, including the impacts on tourism, mainly on a global or regional scale. For example, a study by Bigano (2006) simulates the effects of development and climate change on tourism. The model predicts shifts in international tourist flows towards higher altitudes and latitudes.

For countries and regions that depend heavily on incomes from tourism climate change could affect negatively but it could bring benefits to places that are currently not popular with tourists. In order to describe the reactions to climate change of tourist behavior, the authors use a statistical model, which helps to see this both in terms of changes in their (domestic and international) numbers and in terms of changes in their expenditure decisions. The first step is to construct a matrix of tourism flows from one country to the next. Secondly, they perturb this matrix with scenarios of population, income, and climate change. Lastly, the resulting changes in the average length of stay and expenditures have been computed.

Currently, the regions including Central and Eastern Europe dominate tourism, with over half of world tourists but only a fraction of the world population. However, their share has been declining over the last 20 years, and will continue to do so. According to the Hamburg Model for most of the 21st century, tourism will be predominantly Asian. The pattern of receipts from domestic and international tourists is different. The model predicts that after 2030 the other regions, but particularly Asia, capture a larger share of the market. While the world aggregate number of domestic tourists hardly changes due to climate change, individual countries may face dramatic impacts that grow rapidly over time. According to the model, currently colder countries will see an increase in domestic tourism; warmer countries will see a reduction.

Aggregate international tourism falls because of climate change, reaching a maximum decrease of 10% below the scenario without climate change around 2025, and edging towards zero after that. Aggregate international tourism falls because more tourists stay in their home country, particularly tourists from Germany and the UK, who make up a large part of international tourism. By 2100, for individual countries, international arrivals may fall by up to 60% of the base value or increase by up to 220% of the base value. Climate change increases the attractiveness of cooler countries, and reduces that of warmer ones. According to the model world aggregate expenditures hardly change, first rising slightly and then falling slightly. The relationship between current climate and impacts of climate change, however, is a lot noisier for expenditures than for international arrivals and domestic tourists.

### **Expected impacts in Europe**

Regarding central and eastern European countries, the majority of tourists are attracted by the culturally important cities, such as Prague, Budapest, Warsaw, Moscow, St Petersburg and the Baltic capitals. From this point of view, the region is less sensitive to climate change. But with rising incomes, tourist centers are increasingly being built and expanded in favorable geographic locations. In the future, parts of these regions will experience climate change. We can mention the Baltic States, characterized till now by cultural and rural tourism, which could attract more seaside tourists. The Polish coast could also benefit. Countries bordering the Black Sea (Bulgaria, Romania and the Ukraine) could also expect beneficial effects from climate change for their regions. Primarily, they could attract seaside holidaymakers away from the hot eastern Mediterranean area, such as Greece and Turkey. Low prices will help this.

Climatic conditions will also improve in Russia, which attracted more than 20 million foreign tourists in 2006 –as many as Austria. Nevertheless, it is usually dominated by types of travel that are highly insensitive to climate. The summer convalescence and health tourism in lake and mountain landscapes is the second most important in Eastern Europe. Lake Balaton in Hungary – the largest lake in central Europe – is, for instance, an immensely important tourist destination in the country.

However, rising temperatures and reduced amounts of precipitation represent a risk for the very shallow lake: increased evaporation would make it even shallower. In the long term, this could interfere with water sports. Winter sports tourism is widespread in a few areas of the Carpathians. However, many of the skiing areas in these countries are at such low altitudes that, like parts of Austria, they could have problems with snow reliability. Nevertheless, winter sports tourism represents only a small part of the total revenues from tourism.

Climate change could increase the touristic appeal of the central and eastern European countries. Only minor effects are expected from climate change though, as cultural tourism, which is not dependent on climate, is more important. Increasing summer temperatures will result in a positive effect for northern regions like the Baltic. However, in many regions summer tourism is still in its infancy. Negative climatic consequences always have particularly serious effects (Heymann E.,2008) where climate-sensitive tourism has a large economic weighting. In Europe, this is in Malta, Cyprus, Spain, Austria and Greece. Even though the climatic effects will not be “life threatening”, the message

is however clear: if climate change means that the tourists stay away, there are considerable negative effects on the whole economy.

Among the countries that will experience positive climatic effects, Estonia (partly because of its proximity to Finland), Slovakia, Switzerland and New Zealand are the most dependent on tourism. In the European countries, in Canada and in the USA, tourism is of below average significance. Due to the expected substitution effects, the significance of the tourism industry in many “winning” countries could, however, increase in the coming decades as a consequence of climate change. The graphic shows all the countries that we have investigated in our scoring model, with the exception of the island states in the Indian Ocean (Mauritius, the Seychelles and the Maldives), Jamaica and the Bahamas. These five countries are also in the group of losers. They are negatively affected by climate change and have a particularly high economic dependence on tourism. For reasons of scale we have not included them in the graphic.

According to our survey, other gainers include the Czech Republic, Slovakia and Estonia. It must be pointed out that the predominant forms of travel in these countries are less climate sensitive than for instance in the Mediterranean countries.

The Hamburg Tourism Model predicts drastic differences across the countries in the world. Thus, a closer look on expected impacts in Europe is necessary. There are studies about the whole continent, as well as about specific regions (mainly the Alps and Mediterranean) covering both the effect on summer and winter tourism. The major effects that could be expected are summarized in Table 1.

There are no specific studies about the economic impacts on the tourism sector in Bulgaria; however, we can draw some general conclusions from the table above. It is quite probable that the traditional mountain winter resorts at low altitudes and summer destinations on the Black sea will suffer from uncomfortable tourist conditions, while new destinations in the countryside offering alternative forms of tourism and summer mountain vacations might benefit from climate change.

<i>Geographical location</i>	<i>Main climatic drivers</i>	<i>Expected potential impacts on</i>	<i>Level of</i>
<i>Nordic regions, Eastern Europe</i>	<i>Rising temperature, changes in precipitation</i>	<i>Positive impact on tourism demand</i>	<i>Medium</i>
<i>Mediterranean regions, costal resorts</i>	<i>Rising temperature, changes in precipitation, sea level rise</i>	<i>Negative impact on tourism demand during summer</i>	<i>Medium</i>
	<i>Rising temperature in summer</i>	<i>Negative impact on tourism demand during summer, positive impact in spring and</i>	<i>Medium-low</i>
<i>Low altitude mountain resorts</i>	<i>Rising temperature, changes in precipitation</i>	<i>Negative impact on winter tourism activities</i>	<i>Medium-high</i>
<i>High altitude mountain resorts</i>	<i>Rising temperature, changes in precipitation</i>	<i>Possible positive impact on snow-related activities</i>	<i>Medium</i>

*Table 1 - Potential effects of climate change on economic activity in the tourism sector*

The expected adverse effects on the beach tourism on the Black sea are confirmed also by the PESETA project. The project makes a multi sector assessment of the impacts of climate change in Europe for the 2011-2040 and 2071-2100 time horizons, firstly, by assessing the physical impacts and, secondly, by valuing them in monetary terms. However, the purpose of the study is not to give single values of damage or impact of climate change, but to explore the plausible ranges of climate change impacts.

The tourism study aims at modeling the major flows of tourism in Europe so that the influence of the climate is explicitly considered. Coastal tourism, a dominant segment of the tourism market, has a marked seasonal and spatial concentration. In PESETA project the climatic suitability for general summer tourism purposes is expressed as an index, the Tourism Climate Index (TCI), comprising the climate features temperature, humidity, sunshine, rain and wind. Monthly climate data is used with a spatial resolution of 12 km. The maps represent summer conditions (June, July, August). The main information these maps provide is the direction of these shifts. Some regions see their climatic attractiveness improve in summer, with other regions (such as the Balkans) facing deterioration.

There are significant shifts in the climatic suitability for tourism, with the belt of excellent summer conditions moving from the Mediterranean towards northern Europe. In the shoulder seasons (spring and autumn, not shown here), TCI scores are generally projected to increase throughout Europe. The authors point out that the maps only provide projections of climatic suitability patterns, and not of the economic significance of climate change for tourism. The study is based on only one emission scenario and one climate scenario, also does not take into account extreme weather events.

Winter tourism is a special topic of research interest. Studies show that there is a statistically significant trend in snow-cover reduction in the Alps over the recent years. A number of authors study the impacts of climate change on winter tourism especially in Austria and Switzerland.

There is another model (Breiling and Charamza, 1999) which has to do with the seasonal snow cover depth related to altitude and develop a regionalized model for Austrian snow conditions. The snow model covers three steps. In the first step the authors have modeled the relation of snow to temperature and precipitation at each snow station under consideration. In the second step they have modeled the best fit of all stations to a regional dependence of snow cover and altitude. In the third step they have used a scenario for temperature and precipitation change and computed a new snow-cover depth. Then they have looked at what altitude they find this snow-cover depth today. At about 2000 m altitude a warming of 2° does not seem problematic concerning the amount of snow. The authors predict that at this degree of warming almost half of the annual values of snow will remain in the range of 1965 to 1995 values. Thus, in Austria they could occasionally find good winter seasons, but they cannot count on a regular appearance like during 1965 and 1995. In fact, according to the authors it is the frequency of good and bad seasons that will determine the future of resorts. The development of Austrian winter tourism and skiing infrastructure during the last 30 years was changing in accordance with the decade temperature variation.

Analysis of the Impact of Climate Change on Tourism in Some European Countries 279 was a relatively cold one. At that time an expansion of ski lifts occurred. The period 1985-1995 was considerably warmer. Most winter resorts had snow problems during this time, many of them serious ones. Artificial snow making became popular. Breiling and Charamza point out that just 0.8 °C warming necessitated strong adaptation and the impact of 2°C warming could leave only a few locations suitable for winter tourism and skiing – restricted to high altitudes.

The impacts of snow-deficient winters at the end of the 1980s on the winter tourism industry in Switzerland have been examined by Koenig and Abegg (1997). The study shows that ski areas in lower areas suffered severe consequences. The authors assess the snow reliability of ski areas assuming the 100-day rule. This rule states that to operate a ski area with profit, snow cover sufficient for skiing (i.e. 30cm) should last at least 100 days per season (between the first of December and the end of April). Different studies showed that most of the Swiss ski areas above 1200m have matched the 100 days-rule in the past and that a minimum altitude of 1200m ('line of snow-reliability') is required in order to operate a financially viable ski industry under current climate conditions in Switzerland. If significant atmospheric warming were to take place (+2°C) the snowline in the Central Alps would rise by 300m. The study shows that 85% (195 of 230) of the ski areas in Switzerland are snow reliable at present. If climate change should occur as outlined above, the number of snow reliable ski areas would drop to 144 (= 63%). The corresponding figures for single ski lifts are 40% and 9% respectively. On a regional level stronger consequences could be expected. This is likely to threaten the regionally balanced economic growth in Switzerland which has provided winter tourism. A number of studies cover also other climate related consequences that are likely to affect tourist flows, e.g. water shortages in southeast Mediterranean, threats to cultural heritage, biodiversity (see summary in EEA, 2007).



There is another project of CLAVIER which is supported by the European Commission under the Thematic Sub-Priority "Global Change and Ecosystems". Researchers from six countries and different disciplines investigated linkages between climate change and its impact on Central and Eastern Europe (CEE). Three representative countries are studied in detail: Romania, Hungary and Bulgaria.

Different nations in Central and Eastern Europe (CEE) face triple challenges of the ongoing economic and political transition, continuing vulnerability to environmental hazards, and longer term impacts of global climate change. Although there are useful studies on a European level, studies based on detailed regionalized climate models for CEE considering especially the economic impacts of climate change are lacking. This project addresses these scientific goals:

- Investigation of ongoing and future climate changes and their associated uncertainties in Central and Eastern European Countries (CEEC)
- Analyses of possible impact of climate changes in CEEC on weather pattern and extremes, air pollution, human health, natural ecosystems, forestry, agriculture and infrastructure as well as water resources
- Evaluation of the economic impacts of climate changes on CEEC economies, concentrating on four economic sectors, which are agriculture, tourism, energy supply and the public sector.

In the framework of this project, ongoing and future climate changes are analyzed based on existing data and climate projections with very high detail to fulfill the needs of local and regional impact assessments.

CLAVIER project is divided into eight work packages (WP).

**WP1:** Climate change simulations and assessment of uncertainties

**WP2:** Optimized input data for climate impact studies from regional climate models

**WP3x:** Impact studies

**WP4:** Economic Vulnerability of CEE societies and economic impact assessment

The main objective of WP4 is to evaluate the economic impacts of climate change in Romania, Hungary and Bulgaria on tourism, agriculture, energy and the public sector. Romania is going to study climate change impacts on winter tourism at the Carpathians and summer tourism at Constantza. The Bulgaria takes part in the WP4 with the task to investigate climate change impacts on winter tourism in the resort of Bankso, Borovets and Pamporovo and on the development of the regions where the resorts are located. Hungary is engaged to study the tourism impact Lake Balaton. In the CLAVIER project, three different regional climate models are used to form a small model ensemble. With each of these models, a simulation of a past period from 1961 to 2000 and a long transient simulation for the hundred years of 1951 to 2050 were carried out. This combination is designed to evaluate the uncertainties existing in the different stages of regional climate change information.

There are four economic sectors of particular interest to evaluate the economic impacts of climate changes in Romania, Hungary, and Bulgaria: agriculture, tourism, energy supply and the public sector. It is also analyzed the risk transfer mechanisms and institutional settings that can deal with economic risks, e.g. from flood events or droughts.

The study areas selected in Romania are different for winter tourism (the Prahova Valley and the limitrophe mountain region Bucegi Mts) and for summer tourism (Southern littoral region, between ConstanNa and Vama Veche – ConstanNa County). Based on the findings of the case studies, the influence of climate change scenarios on the national economies will be estimated and conclusions on the overall macroeconomic relevance of the studied phenomena will be drawn.

### **Environmental policy and the strategy for sustainable development**

For times economic theory has ignored the effects of the economic development on the environmental medium. The first economists to correlate the economic progress with technological advance and population's growth, was the classical ones and so a problem of "limited development" was raised. Malthus was concerned with the absolute limits, asserting that as the economy develops, the population's growth exceeds the "subsistence means", the inevitable result of such a situation being the "zero growth", while Ricardo, discussed the relative limits. In his opinion, they were imposed by the cost of resources which, as they were consumed, got reduced and, consequently, they should have been substituted by low-quality ones, the cost of which was, nevertheless, higher. Marx considered that economic development may be limited by certain social and political factors.

After analyzing the effect of the modern economic system's development upon the generations to come, the idea of social limitation has been reconsidered in the '70 when, as a result of the decline of the morality criteria in the contemporary society, restrictions of ethical nature have been introduced, as well. John Sturat Mill believed introduced the idea of a constant "stock" of fixed and human capital, an idea that was to become - in the modern epoch - the rule for a sustainable economic development ("the constant capital"). Some got preoccupied by the environment's condition and by its turning to good account at either national or international level, but they were ignored by their own contemporaries [Turner K. R., Pearce W. D., Bateman I., 2003, p. 16], although some of their messages are still valid.

From the other hand, the neo-classical economic theory prefers the analysis of economic systems in which market's balance and the exchange values were prevalent, and which encountered difficulties when the social and the individual interests became divergent [Prodi R., 2003, p. 205]. The natural resources were considered inputs external to the economic system. Part of them were non-economic goods, while, for the others (labor excepted), price reflected their degree of rare occurrence, The negative effects exerted upon the environment by the human activities have been ignored by the representatives of this school, however, the economic growth induced the innovation which apparently drew the attention of the economists in those times. Instead, the developed countries

began to appear the first 'green points' and the first elements of environmental policy, both re-named by the term of 'ambientalism'.

The polluting emissions released in the atmosphere are irreversible, generating unavoidable external effects, which requires certain types of interventions from the part of the governments. Later on, it was to be seen that no governmental intervention may act as a panacea for solving the environmental problems, while the failure of some of these measures may even grew worse the environmental crisis. Increasing of the industrialized society's awareness as to the gravity of the environmental problems led, in those times, to the creation of some new ambientalist ideologies, which were definitely oriented against economic growth. Nevertheless, such ideologies have been manifested only in the industrial countries of the nor then part of the planet, the developing countries from the south being oriented towards the satisfaction of their fundamental needs, environmental policy being considered as a luxury they cannot afford.

It is now provoked a re-orientation of the environment thinking, while the term "sustainability" came to be used in quite various contexts - such as World Conservation Strategy. It expresses the environment's capacity of "sustaining" economy, of making economy "sustainable". Sustaining of the economic system does not mean, only economy's keeping alive, but equally, its development [Mauri D., Valentini T.D., 2003, p. 6], this latter term being understood as a "vector" of objectives or grievances that coincides with the aspirations of the society, companies and individuals. Development becomes sustainability when the development vector is non-negative over an infinite time horizon. Sustainable development, created by the end of the '80, is now present in the main international agreements and regulations. Sustainable economic development is therefore defined as "the development that satisfies the necessities of the present generations, without compromising the expectations of the coming ones for satisfying their own needs." This does not assume an immediate connection between economic development and the environment.

It is based on the concept of "necessity", which leads one towards the understanding of economic development as a means for improving life's quality. The quality of the environment is the essential characteristic of the quality of life in a certain society, therefore becoming the essential characteristic of the economic development's quality. So, the interdependence between the objective of economic development and that of environment's conservation becomes explicit [Moro B.s 1977, p. 31].

According to a classic approach, the effects of environmental deterioration as a result of the economic development are viewed as negative externalities or as effects quite difficultly included in market transactions, if considering that the environment is a public fortune, upon which no right of property, changeable at market price, may be exactly defined. In a modern approach, the essence of sustainable development refers to the environment's capacity of fulfilling a double economic function, i.e., supplier of utilities, both as an important element of life's quality that should be preserved as a source of services for production and consumption, which should be exploited.

The exploitation of an environment resource produces short-term advantages (increase of the profit or of the labor force's occupation degree) and, equally, negative externalities. In a classical conception,

the optimum exploitation of a resource occurs when the increase of profit, as a result of exploitation, is equal to the marginal prejudice associated to the negative externality. However, the modern economic systems do not have the guarantee that an ecological optimum corresponds to the economic one. When the current exploitation of an environmental resource exceeds its regeneration capacity, the stock of resources tends to be diminished, which produces a loss materialized in more reduced possibilities of utilizing the resource stock - in terms of life's quality - both by present and future generations, causing deterioration of the optimum situation. Thus, the present generations should transmit to the coming ones a stock of resources (capital) non-inferior to that available to it (according to the rule of the constant capital). Considering that the natural resources represent a capital which, once diminished, is not perfectly replaceable by other forms of physical capital, as they perform essential functions for human species' survival, they should be preserved.

The new concept of development, including 3 equally important (economic, social and ecological) factors, involves necessarily harmonization of the economic growth with other elements of major importance, such as: increase of the qualitative level of population's life, alimentary and energetic security, environmental protection and rational turning to good account of the natural resources. Nowadays the organization is viewed as playing the main role in assuring sustainable development. The company's activities should be performed so that to preserve the environment and, the community. At the same time, the companies are subjected to an ever increasing pressure from the part of some external (international organisms, the European Commission, public administrations, non-governmental institutions, business partners, etc.) and internal subjects (share- and stake-holders, employees, syndicalists, generally defined as stakeholders, who require, by means of various "instances", to know and evaluate the company's position as to its sustainable development, the more so that the stakeholders themselves have a part to play in sustainable development.

To include the objective of sustainable economic development in their strategy, are financial institutions too, even if their activity is apparently neutral both towards environmental aspects and social responsibility. The signals of such responsibility of the financial institutions have been materialized in the fact that a significantly high number of financial institutions, especially from the Anglo-Saxon countries, have adopted environmental and social criteria of selection for the companies in which they invest, by the acquisition of actions and obligations. This represents a kind of "lens" through which one may individualize: the companies exposed to environmental risks; the companies characterized by a high degree of conflicting either with their employees or with the local community, the companies having the necessary potential for supplying ecological products and services. And this represents a way of attracting new customers.

Finally, we can say that to evaluate correctly the positive or negative impact of a company upon sustainable development, we must consider economic development, profit generation, and jobs; social development, as a token of welfare and regard of the human rights; environmental development, assumed to assure protection of the natural resources and the ecosystem's capability of absorbing and tolerate pollution.

## Conclusions

Traditional economic growth is not sustainable. This means that some patterns of economic growth should be elaborated based on the sustainable utilization of the renewable resources and on a lower extent on a high-level technology. The total subordination of the environmental system to the economic one is the base of the modern economic theory. While the world aggregate number of domestic tourists hardly changes due to climate change, individual countries may face dramatic impacts that grow rapidly over time. A number of studies have shown that climate change could negatively affect countries and regions that depend heavily on incomes from tourism and could also bring benefits to places that are currently not popular with tourists. The economic and societal relevance of climate change for tourism will crucially depend on adaptation strategies. This calls for more detailed studies about economic costs of climate change and the costs of adaptations on local level (region, municipality, single tourist resort) and secondly – for developing new policy frameworks at a European and regional level. However, despite the challenges sufficient information is available to start with action now.

The concept of sustainable development is based on three inter-conditioned principles. The first one refers to social equity, understood as intra- and inter-generations impartiality, equity between Globe's north and south parts. The second principle refers to environmental protection - viewed as safeguarding and preservation of natural resources and environment's quality. Finally, the third principle is that of economic competitiveness, meaning the economic systems' capacity of creating richness for all citizens, on respecting the environment. So, sustainable development remains a political concept that should respond to some profound social exigencies, aiming at defining - by means of local, national and global environmental policies - the limits within which the activity of the economic subjects should be placed.

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## SERBIA AS BRAND: INTERNAL PERSPECTIVE

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### Abstract

The main purpose of this study was to examine the perception of brand identity and brand image of Serbia viewed by its citizens. Further aim is to propose a group of brand values as a foundation for a strategic brand positioning of Serbia. The inspiration for the research design stemmed from the extant branding literature review. A mixture of quantitative and qualitative research was applied. In total 740 examinees with Serbian citizenship and permanent residence in Serbia participated, thus enabling to capture internal stakeholders' perception of Serbia as brand. Surveying techniques consisted of online, on-the-field and telephone interviewing. Descriptive statistics and principal component analysis were used in the analysis of results. The findings indicate that the key elements of the brand identity of Serbia are: People, Modernity, Media Bias, Tourist destination, National treasury and Cultural uniqueness. The results may improve understanding brand associations of the brand image of Serbia. The results of the study emphasize people as the most important brand identity element of Serbia. The perception of a country's habitants is crucial for creating successful branding strategy for Serbia. The results revealed both positive and negative Serbia brand features. People living in Serbian countryside and people with lower education are found to be underrepresented in the sample. This study is an attempt to provide core values of Serbia as a brand, thus enabling a solid base for the development of a consistent brand communication strategy toward internal and external stakeholders.

**Keywords:** country brand, internal brand perspective, country brand image, country brand identity, Serbia

### Introduction

After successful independence referendum in Montenegro, the state union of Serbia and Montenegro ceased to exist. Shortly after, National assembly of the Republic of Serbia declared independence. Serbia, as a state, was changing its name and constitution many times during the last century. Serbia was a part of larger countries - Kingdom of Serbs, Croats and Slovenians; Kingdom of Yugoslavia, Peoples Federative Republic of Yugoslavia, Socialist Federative Republic of Yugoslavia,

Federal Republic of Yugoslavia and Serbia and Montenegro state union. Dynamic historical, political and economical changes, international sanctions, wars and NATO bombing contributed to the negative media picture of Serbia. Nonetheless, with the dissolution of Yugoslavia it may happen that most of the negative associations disappeared with its name. On the other hand, Serbia may face potential problems of low international country brand recognition, and even worse - a blurry, inconsistent and schizophrenic identity perception by its own citizens. These were some of the arguments for investigating the current brand position of Serbia.

The recent development of destination branding offer potential solutions for repositioning the Serbia as meeting place of culture, religions and languages (Hall, 2002). The first stage in the process of building or rebuilding any destination brand or brand image in general, is to establish its core values. After this stage, the next phase is to develop brand identity based on the strategic managerial activities (Morgan and Pritchard, 2002). Aaker (2010) highlights that a brand should be viewed from both - supply and demand perspectives. A way to do achieve this is to understand differences between the concepts of brand identity and brand image. The self-image desired by the marketers and identity is communicated to the stakeholders, whereas the actual brand image is held in the perception of the consumers (Aaker, 1996; Nandan, 2004).

The inspiration for this research was found in the Destination brand model of the Campi Flegrei case which explained base elements of a country's brand identity and brand image (Ristiano, 2005). The study was designed to determine internal perception of the brand of Serbia through the components of perceived brand equity (brand associations and brand personality). Furthermore, research attempts to identify concrete elements of the Serbia's brand identity from internal perspective. This work should help scholars and practitioners working on the case of branding Serbia to better understanding positive and negative Serbia brand features. More specific, the results from this study are expected to help official authorities to strengthen their branding incentives and policies, which were up to now inconsistent. This may have serious implications for both, image and economy of a country (Lindstrom, 2006). It was found that strong country brands attract not only tourists, but investments as well (Tasci and Kozak, 2006). Finally, this work will attempt to provide key differentiation points as a base to define core values of Serbia as a brand, thus enabling a solid base for development a consistent brand communication strategy toward internal and external stakeholders.

## **Literature Review**

The interest in destination branding and rebranding is constantly growing (Pike, 2005). A destination may represent a region, a country or a city. Branding and rebranding of a country requires different approach from branding a region or a city (Caldwell and Freire, 2004; Fyall and Leask, 2007). Hanna and Rowley (2008) found that most frequent term used for the construct of country in branding literature are 'Destination', 'Place' or 'Nation' but never a 'Country'. A number of authors were particularly interested in providing strategic destination branding framework. For example, Balakrishnan (2009) and Balakrishnan (2008) provided practical strategic framework for successful destination branding of Dubai. Gilmore (2001) provided a "diamond shaped" branding framework

consisting of four factors essential for the branding of each country: macro-trends, target stakeholders, competitors and core competences. Hankinson (2009) identified and categorized five aspects regarding critical antecedents in context of destination branding – brand culture, brand leadership, departmental coordination, brand communication, and stakeholder partnerships.

According to Baker (2008) starting point in defining successful communication strategy of a country brand is to understand gaps between country brand identity and country brand image from internal and external perspective. The construct of brand image has been defined by Keller (1993) as ‘perception about a brand as reflected by the brand associations held in consumer memory’. Typically, these brand associations have been classified into two categories: functional attributes which are the tangible features of a place and emotional/symbolic attributes, those that describe a destination’s specific associations (Keller, 1993; Hankinson, 2004). Brand associations are anything linked in memory to the destination (Pike, 2010). Keller (1993) also outlines three dimensions of brand associations: attributes for country, benefits (country brand competitive advantages) and attitudes of citizens. This framework was applied for examining brand image of Serbia. Specific brand associations and attributes related to the different destinations rely on previous experiences a tourist had (Kneesel, Baloglu and Millar, 2010). Aaker (1997) defines brand personality as the set of human characteristics associated with a brand. Guzman and Paswan (2009) have argued that brand personality concept based on consumer’s perception of brand personality features consist of attributes, benefits, and values. According to Murphy, Moscardo and Benckendorff (2007) destination brand can be defined as perception about a place as reflected by the associations held in tourist memory. Author also identifies six brand personality characteristics based on the case of New Asia-Singapore composed of: cosmopolitan, youthful, vibrant, modern Asia, reliability and comfort. Furthermore, Ekinici and Hosany (2006) state that for the successful establishment of a distinctive brand personality, a group of unique and favorable associations in consumer memory should be set.

Our evidence show scarce literature on the branding of Serbia, whilst there are a number of articles exploring the region and other ex-Yugoslavian countries. Popesku and Maric (2003); Hall (2002) discussed institutional constraints for the branding of Serbia (lack of financial support for Serbia destination marketing campaigns and difficulties to develop with emerging market economy and modern European environment). Saraniemi (2009) found that country brand identity refers to the “core” of the destination; the internal aspects of the brand. Country identity emerges from interaction between internal and external stakeholders. She also identified key components of the country identity/destination structure, destination strategy, destination communication delivered by different media, stakeholders, culture (history, local people, national and socio-cultural resources) and environment - influence of region on country branding. Ristiano (2005) also identified brand culture as a vital element of country brand identity. Guzman and Paswan (2009) presented group of elements that define cultural brands. These are: surrounding myth (a string that ties consumers to their cultural roots) and associations (real and imaginary) of all the good and wonderful things that have been left behind as well as those that are possible in the future. Holt (2004) defines the term “cultural brand” as a performer of, and container for an identity myth. The concept of cultural branding in the literature



has changed from the early 1990s to the present (Halsall, 2008). Author outlines that the post-communist countries of Eastern Europe have neglected their history and heritage due to the new teleological thinking. De Carlo, Canali, Pritchard and Morgan (2009) outline that the negative images of a destination are the greatest obstacles for economic development, an aspirational destination branding strategy should be used to inform residents as well as tourists about ambitions and appeal of place. Žižek (1997) stated that the West's have a typical perception of "the Balkans", as a place of primitive, tribal and irrational passion. Other authors explain possibility for the rebranding of countries with negative past. Hall (2002) explained the context of a Yugoslav national brand and relationship between brand identity and tourism promotion strategy. Bosnia and Herzegovina, as a country with negative past, should be associated with positive feelings using the rebranding strategy (Duborija and Milvic, 2008). Vitic and Ringer (2007) investigated opportunities for promoting Montenegro as a destination of sustainable tourism in the post- Yugoslavian post-civil war era (Vitic and Ringer, 2007). Slovenia as a touristic destination was examined through brand image and identity perspective (Konecnik and Go, 2008). According to Skinner (2008) complexity between culture, national identity and stakeholders should be involved in place branding. Furthermore, Olins (2002) examines the history of a nation as a part of brand identity. Cull (2008) presents links between inter culture and heritage of a place and a situation when cultural output acts as a cultural diplomacy. Trueman, Cornelius and Killingbeck-Widdup (2007) argue that the local communities, the built environment, heritage and infrastructure are vital part of brand image and identity.

Our evidence shows that significant number of published papers in the field of country branding concentrated more on external audiences and foreign visitors, than on internal stakeholders. Very few concentrated or even included perception of internal audiences in their studies. Wagner and Peters (2009) conducted a research which revealed that different associations reflect different identities of a destination brand among internal stakeholders. Some authors like Orth and Tureckova (2002) analyzed both internal and external stakeholders opinion about competitive position of Czech destination. Also a study of EIU ViewsWire Europe (2006) included internal and external stakeholders. It was found that "the EU has a better image among those who are not members than it has among its own citizens". According to Aaker (2010) internal branding role models (programs, event, and stories of people) are on-target representatives of the brand identity elaboration process. Dzenovska (2005) prioritizes the importance role of internal stakeholder (whole population) in the study of branding Latvia as a country rather than communicate brand vision and the consistency of the messages by government agencies and politicians. On the other hand, Freire (2007) identifies influence of the local people on geo-brand image and explained the local people as a factor for brand differentiation. This study found that local people are relevant and important for a destination brand-building process.

Based on the literature reviewed, it is evident that very few studies examine country brand identity and country brand image seen by its internal stakeholders. Moreover, very few studies explore the case of Serbia, which represents an interesting playground for marketing scholars especially having in mind all changes this country faced in recent history. Having said this, the arguments for undertaking

this research are evident. Therefore, investigation is needed in order to identify brand image elements and elements of brand identity of Serbia from internal perspective. The research questions are formulated as follows:

**RQ1:** What are the brand associations (attributes, benefits and attitudes) of the brand image of Serbia?

**RQ2:** What are the elements of Serbian brand identity?

## Methodology

For the purpose of this research venture a combination of quantitative and qualitative research methods will be applied. From the perspective of quantitative research, shortcomings of qualitative research are reflected in the small samples and findings “difficult to pin down” because of its “flexibility and emergent character” (Van Maanen, 1998). Small samples mainly cannot be considered as representative, whilst qualitative findings, even though detail rich, may suffer from bias caused by researcher who at the end, as a bricoleur, gives subjective meanings and conclusions (Miles and Huberman, 1994). Advantages of quantitative research can be found in explicit values of the findings and results that are easy to clarify by following well established mathematical rules. From the perspective of qualitative research, main shortcomings of quantitative research are its “shallow and detail-poor findings” (Denzin and Lincoln, 2000). In order to surmount mentioned limitations and take advantages of both approaches, a mixture of quantitative and qualitative research will be adopted for this work. The approach will be mainly quantitative with a significant qualitative part (enabled though open-ended questions). Quantitative part with its statistical tools applied on satisfactory large survey sample should provide results with a respectable level of significance (Nath, 2007). Qualitative part is expected to capture detailed impressions about components of Serbia brand identity and brand image, that closed-type question are failing to do.

## Questionnaire

The inspiration for the questionnaire design was found in the work of Ristiano (2005) who provided theoretical framework for generic elements of a country's brand identity. Thus, our questionnaire consisted of 8 clusters of questions: demography, brand culture, brand personality, brand character, brand symbols, brand name, and brand slogan related questions. First version of questionnaire consisted of 9 open questions, 10 closed questions and 38 attitudinal statements. After conducting pilot testing on a group of 160 examinees, questionnaire was tested, exploratory factor analysis applied and questionnaire was downsized on the group of most relevant question, thus excluding 11 attitudinal statements. For the measuring of the attitudes of examinees (attitudinal statements) 5-item Likert scale was used with Strongly Disagree and Strongly Agree as the scale anchors. A Strongly Agree response was given the weight of 1 and Strongly Agree a weight of 5. The scale was then checked for the reliability. Cronbach alpha coefficient was .861 which is above .7, thus implying that scale is reliable (DeVellis 2003). Final version of the questionnaire was then released for the fieldwork.

## Sampling

**Target population:** Our target examinees Serbian citizens, permanently inhabited in Serbia. The estimated size of the population of the Republic of Serbia refers to the number of 7,334,935. (Statistical office of the republic of Serbia, 2010)

**Sampling technique:** A combination of several sampling techniques was applied. For the internet surveying we used online random intercept sampling. For the field surveying, we used judgmental sampling. Here, the guide principle was to survey citizens older than 40 years, since this group was found to be underrepresented in the online survey sample. Thus, we attempted to overcome limitations of online sampling technique which is biased toward younger people. And finally, for the third sampling technique - CATI, systematic random sampling was applied using phone number generator software.

**Sample size:** In order to determine sample size that will provide results with the confidence level (CL) of 95%, statistical approach recommended by Malhotra (2007) was applied. The level of precision for the scales, as maximal permissible difference between the sample mean and the population mean, was 0.1. Z value associated with CL of 95% equals 1.96. Standard deviation for the population ( $\sigma$ ) was estimated by conducting a pilot study on 160 examinees. The resulting value for  $\sigma$  amounted 1.015. The sample size was finally estimated using the formula for standard error:  $n = \sigma^2 \times Z^2 / D^2$ . The needed sample size with the CL of 95% calculated by formula for standard error required 396 examinees. However, we managed to gather 740 valid responses within 7 days ( $n=740$ ).

**Surveying:** For the purpose of online surveying we created online survey using Kwik Surveys website ([www.kwiksurveys.com](http://www.kwiksurveys.com)). The survey link was advertised using social networks such as Facebook and LinkedIn. Existing email databases were used and potential examinees were emailed to participate in the survey. On the other hand on the field, only people older than 40 years living in three major cities- Belgrade, Novi Sad and Niš were examined. This enabled us to overcome limitations of online surveying approach and to geographically cover Serbia from the North to the South of country. We enabled everyone to participate in the survey, but relevant for our analysis were only those living permanently in Serbia, having Serbian citizenship. Survey was completely anonymous, and examinees were not asked for any personal data. We found the topic was interesting for our prospects and many wanted to participate. Thus, it shouldn't be surprising that examined sample was more than twice larger from the projected sample. Many of respondents felt delighted to participate in a survey about their country, whilst many of them expressed having a feeling of contributing to the upper cause.

## Findings

### Data analysis and statistical tools

After expiration of surveying period and acquisition of the satisfactory number of completed surveys, results were coded and inserted in the SPSS 17.0 software, which was used for statistical analysis of collected data. Following good practice of Palant (2005) and Malhotra (2007), prior to data

analysis, error screening and data cleaning was undertaken. After insuring that there are no missing values or values of the variables that fall outside defined ranges, it was proceeded to the data analysis.

Following statistical tools were used:

(1) Descriptive statistics tools (means, frequencies etc.) were used to capture average values on the examined issues. These tools were very helpful to extrapolate demographic profile of participants and their general impressions on different issues we explored. Furthermore, frequencies were used to explore and sort answers acquired from the open-type questions.

(2) Factor analysis. Exploratory and confirmatory factor analysis was used. The aim of these tools was to test appropriateness of the questionnaire and to determine underlying structure/components of the explored phenomena of Serbia brand identity. We used principal components analysis (PCA), parallel analysis and Oblimax techniques for extrapolating principal components. Also, Monte Karlo PCA software assisted us to determine optimal number of factors within the parallel analysis.

### Demographic profile of research participants

In total we had 900 examinees, whilst 740 satisfied condition of possessing Serbian citizenship and having permanent residence in Serbia. This group was of great importance for us, since we presumed that they are the most relevant internal stakeholders, and these were particularly in our focus. The examinee was in average 30.36 years old (std. dev. 9.969, median 27, mode 25, range 15 to 81 years). 45.5% of participants were male, whilst 54.6% female.

### Serbia brand image – the first association: attitudes of citizens

The first question in the questionnaire we developed had intention to capture the first thing that comes to a prospects mind when mentioning Serbia. Results grouped as list of synonyms are shown in the Table 1 with corresponding frequencies, listed in descending order.

<i>Rank</i>	<i>First association</i>	<i>%</i>
1	<i>Homeland, fatherland, home, house, my country...</i>	17.1
2	<i>Poverty, misery, struggle...</i>	3.4
3	<i>Sport, sportsmen, sportswomen...</i>	3.1
	<i>Nature, nature beauties...</i>	3.1
4	<i>Chaos, dysfunctional system, corrupted politicians...</i>	2.9
5	<i>Pride</i>	1.3
	<i>Slivovitz</i>	1.3
6	<i>Nightlife</i>	0.9

*Table 1: First association when mentioning Serbia*

### Serbia brand image - brand personality: attributes for country

In order to explore features of brand personality, a series of opened and closed questions were used. Our intention was to determine gender, age and key personality features in the case Serbia was a

human. Majority of respondents (67.5%) imagine Serbia as a man, and the rest of 32.5% as a woman. Majority of examinees imagine Serbia to be in old age 37.9%, following by the teenage 25.9%, middle age 21.1% and child age 15.2%. We asked our examinees to list three key personality features, and most frequent traits were stubbornness (5.9%), pride (3.9%), courage (3.6%), beauty (3.2%), malice (3.1%) and naivety (2.5%). Since Serbian public is generally divided about employment of the two official alphabets - Latin as symbol of western societies, and Cyrillic - as domestic alphabet, we wanted to examine which alphabet would Serbia use if Serbia was a human. 52.2% examinees defined Serbia as bi-alphabetical (using both Cyrillic and Latin alphabet) whilst 44.4% examinees defined Serbia to be only able to read and write in Cyrillic.

### **Serbia Brand image- symbols: attributes for country**

First we wanted to examine people's attitude about official "brand symbols" such as flag, herald and anthem. It was of our interest to see whether people generally accept and identify themselves with mentioned symbols, since these suffered influence of political turbulence and had no continuity during the last century. Since 2006, Serbia became independent. The new-old European country, Serbia, brought back its old national symbols – flag, herald and anthem. 54% of respondents like the new-old herald whilst 35.5% examinees do not have any feeling or attitude toward it. 55.9% of examinees like the new-old anthem whilst 28.6% do not have any feelings or attitude toward the anthem. When asked about exact order of the colors of Serbian national flag, 86.9% of examinees gave correct answer. The significant amount of respondents who failed to give correct answer (13.1%) should not be surprising since Serbia changed its flag several times during the last century. 84.3% of examinees always support Serbian national team, no matter which sport they play, whilst 12.7% reported not being interested in sports.

When asked to represent Serbia free-willingly with one thing, image or symbol, respondents gave answers as shown in the Table 2.

<i>Rank</i>	<i>Image that will best represent Serbia</i>	<i>%</i>
1	<i>Nature (river, sky, meadow, stream, forest, flowers, trees )</i>	22.6
2	<i>Sights of Belgrade (Kalemegdan, confluence of Danube and Sava, Victor monument, Avala tower)</i>	8.4
3	<i>Traditional village in Šumadija (central Serbia)</i>	5.8
4	<i>Orthodox churches and monasteries</i>	5.7
5	<i>People</i>	2.6
6	<i>Two-headed eagle (as on the Serbian herald)</i>	1.6
7	<i>EXIT and Guča festivals</i>	1.2
8	<i>Heart</i>	1.2
9	<i>The fresco of White Angel (Monastery Mileševa)</i>	1.1

*Table 2: Picture of Serbia*

### Serbia brand image - benefits

In order to find out what differentiate Serbia from the countries of region, examinees were asked to list three key differential advantage of Serbia comparing to the countries of regions. The most frequent differential advantages are listed in the Table 4, with descending frequencies.

Rank	Differential advantage	%
1	<i>hospitality</i>	4.3
2	<i>nightlife</i>	3.2
3	<i>natural beauties</i>	3.8
4	<i>history</i>	2.9
5	<i>food</i>	2.3
6	<i>people</i>	2.1

*Table 4: Differential advantage of Serbia comparing to the neighbor countries*

Finally, examines were asked to define what can be Serbia most proud of. The most frequent answers are listed in the Table 5, with descending frequencies.

Rank	Pride of Serbia	%
1	<i>Sportsmen (Novak Djokovic, Vlade Divac, Sasa Djordjevic, Nadja Higl...)</i>	18.8
2	<i>Nikola Tesla</i>	9.6
3	<i>People</i>	6.8
4	<i>Talented, smart and successful young people</i>	5.6
5	<i>Historical heritage</i>	5.5
6	<i>Orthodox churches and monasteries</i>	5.1
7	<i>Natural beauties</i>	4.5
8	<i>Rulers and politicians (Zoran Djindjic, Car Dusan, Milos Obrenovic, king Aleksandar, Tito, Boris Tadic)</i>	4.5

*Table 5: Pride of Serbia*

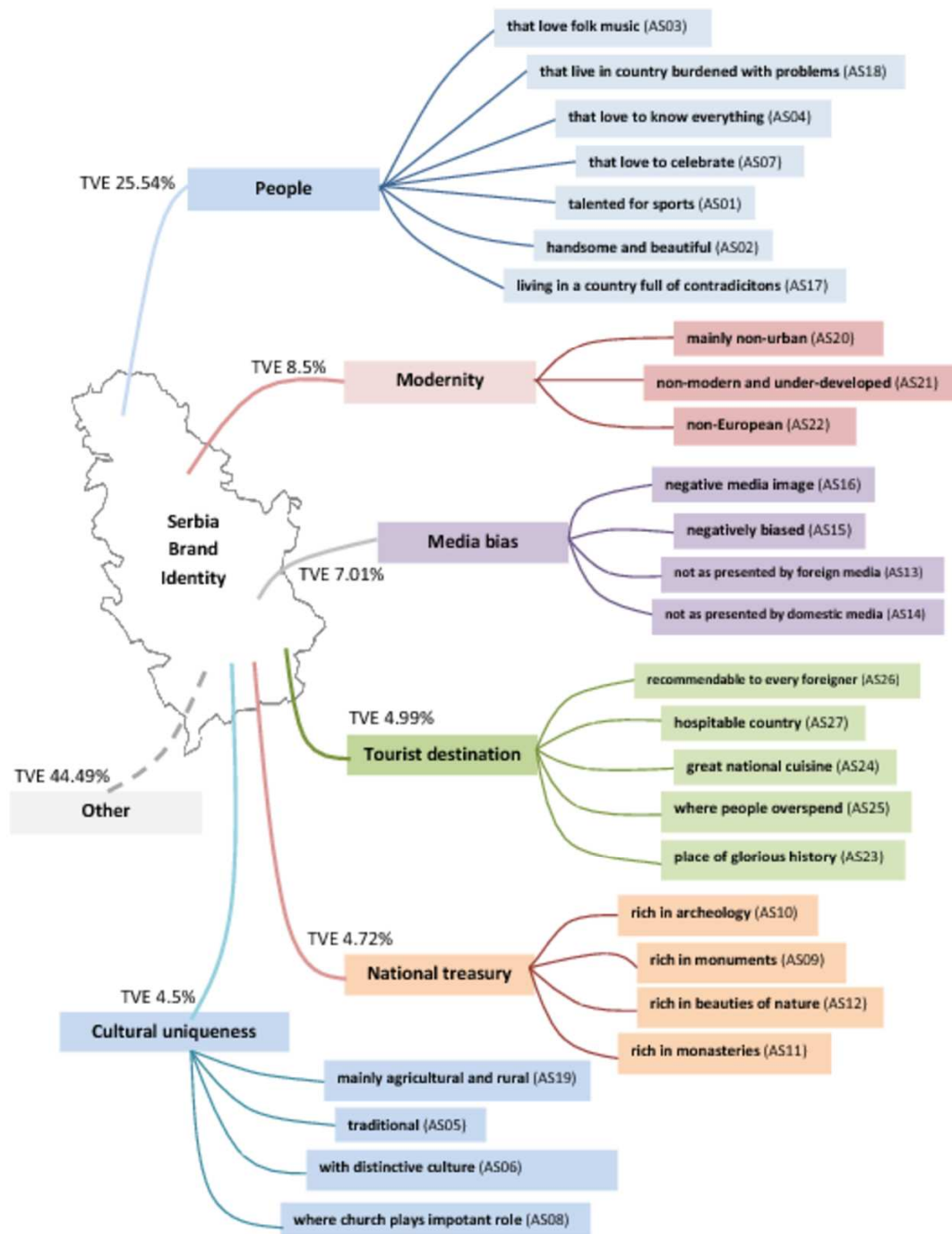
### Serbia brand identity

Prior to performing principal components analysis (PCA), the suitability of data for factor analysis was assessed. All of the 27 attitudinal statements (see Table 7 for detailed list) had communality higher than recommended value of .5 (Nath, 2007). PCA was then fully performed. Inspection of the correlation matrix revealed that all of the coefficients were equal to or higher than .3. The Kaiser-Meyer-Olkin value was .882, exceeding recommended value of .6 (Kaiser 1970, 1974) whilst Bartlett's Test of sphericity reached statistical significance of .00, thus supporting factorability of the correlation matrix. Initial PCA was performed using Oblimin rotation technique which suggested 8 factors/components. In order to determine optimal number of factors, parallel analysis (MonteKarlo

simulation) was used and eigenvalues were compared with the eigenvalues given by the PCA (Pallant, 2005). Parallel analysis showed 6 components with eigenvalues exceeding the corresponding criterion values for a randomly generated data matrix of the same size (27 variables x 740 responses). Thus, we found that optimal factor number was 6. We facilitated another PCA and forced procedure to suggest 6 factors (see Table 6 for the pattern and structure matrix for PCA with Oblimin rotation of six factor solution). The 6 component solution explained a total of 55.51% of the total variance of Serbia as Brand construct. Component 1 explained 25.54% of total variance, Component 2 – 8.75%, Component 3 – 7.01%, Component 4 – 4.99%, Component 5– 4.72% and Component 6 – explained 4.5% of total variance. To aid in the interpretation of these six components, Oblimin rotation was performed. The rotated solution revealed the presence of relatively simple structure, where 23 variables were strongly loading only one component and 4 variables were loading two components at a time. We named principal components and gave their descriptive values in the Table 3. The conclusion about Serbia brand identity drawn from factor analysis and principal components descriptive statistics are summarized in the Exhibit 1.

<i>Principal components</i>	<i>N</i>	<i>Mean</i>	<i>Std. Deviation</i>	<i>Variance</i>
<i>C1 – People</i>	740	4.0920	.58715	.345
<i>C2 – Modernity</i>	716	2.4297	.75238	.566
<i>C3 – Media bias</i>	738	2.4432	.70544	.498
<i>C4 – Tourist destination</i>	718	4.1893	.75209	.566
<i>C5 – National treasury</i>	739	4.0436	.78270	.613
<i>C6 – Cultural uniqueness</i>	740	3.3928	.66457	.442

*Table 3: Principal components with descriptive statistics*

**Exhibit 1:** Elements of Serbia brand identity

\*TVE = total variance explained



Attitudinal statement item	Pattern coefficients						Structure coefficients						Communa- lities
	C1	C2	C3	C4	C5	C6	C1	C2	C3	C4	C5	C6	
AS03 - Serbs love folk music	.712	.024	.079	-.040	.084	.153	.671	-.020	.051	.178	-.141	.161	.487
AS18 - Serbia is always burdened with problems	.646	-.163	.110	.026	.026	-.020	.650	-.217	.073	.197	-.143	-.025	.466
AS04 - Serbs love to know everything	.637	.050	-.064	-.028	-.067	-.042	.647	.009	-.112	.234	-.260	-.003	.431
AS07 - Celebrations play vital role in the lives of Serbians	.609	-.044	-.158	.102	-.115	.133	.698	-.030	-.232	.408	-.387	.183	.573
AS01 - Serbs are talented for sports	.478	.213	-.145	.243	-.131	.049	.600	.239	-.254	.523	-.443	.159	.529
AS02 - Serbs are beautiful nation	.350	.200	-.159	.274	-.138	.173	.491	.260	-.266	.531	-.446	.282	.510
AS17 - The image of Serbia in media is full of contradictions	.345	-.048	.096	.074	-.199	-.278	.419	-.086	.033	.216	-.264	-.226	.283
AS20 - Serbia is mainly urban	.068	.756	.035	-.005	-.090	-.034	.039	.756	-.015	.123	-.207	.110	.585
AS21 - Serbia is modern and developed	-.097	.667	-.018	-.078	-.037	.253	-.148	.714	-.031	.011	-.121	.357	.588
AS19 - Serbia is mainly agricultural and rural	.022	-.593	-.020	.167	-.065	.427	.157	-.496	-.038	.203	-.141	.364	.294
AS22 - Serbia is European country	-.025	.494	.020	.134	.057	.107	-.027	.518	-.020	.163	-.081	.196	.671
AS16 - The image of Serbia in media is positive	-.051	.093	.820	.185	.045	.015	-.060	.074	.787	-.010	.079	.045	.497
AS15 - The media image of Serbia is better than reality	.188	.010	.771	.018	.000	-.232	.135	-.074	.755	-.107	.083	-.221	.658
AS13 - Serbia is as presented by the foreign media	-.067	-.176	.540	-.292	.015	.198	-.189	-.195	.615	-.424	.222	.124	.656
AS14 - Serbia is as presented by the domestic media	-.073	.077	.478	-.157	-.073	.460	-.125	.131	.502	-.180	-.015	.462	.531
AS26 - I would recommend every foreigner to visit Serbia	-.165	.043	.052	.774	-.177	-.053	.150	.148	-.123	.778	-.444	.086	.501
AS27 - Serbia is country of hospitality	.004	.093	.003	.763	-.040	.035	.276	.183	-.165	.796	-.386	.162	.651
AS24 - Serbia has great national cuisine	.094	-.021	-.006	.761	.041	.050	.349	.053	-.163	.782	-.319	.145	.646
AS25 - In Serbia people spend more than they have	.188	-.195	.005	.689	.092	-.068	.410	-.162	-.129	.686	-.218	-.017	.623
AS23 - Serbia is a country of glorified history	-.148	.054	-.043	.524	-.300	.208	.133	.198	-.186	.643	-.530	.339	.562
AS10 - Serbia is rich in archaeological sights	-.102	-.039	.041	-.019	-.927	-.074	.175	.086	-.074	.318	-.862	.088	.565
AS09 - Serbia is rich in monuments	-.035	.015	-.018	-.013	-.835	.049	.220	.145	-.129	.342	-.833	.206	.762
AS12 - Serbia is rich in nature beauties	.216	.013	-.069	.168	-.600	.022	.464	.109	-.201	.516	-.753	.168	.698
AS11 - Serbia is rich in monasteries	.373	-.018	-.061	.042	-.580	.048	.573	.056	-.173	.435	-.727	.173	.657
AS05 - In Serbia, tradition is specially nurtured	.089	.167	.029	.149	.012	.633	.146	.278	-.014	.272	-.219	.682	.671
AS06 - Serbs have unique and distinctive culture	.178	.013	-.080	-.016	-.116	.612	.258	.308	-.141	.412	-.545	.474	.497
AS08 - Church plays vital role in lives of Serbian people	.093	.187	-.047	.153	-.351	.352	.234	.121	-.105	.196	-.293	.640	.474



<i>Serbia brand identity attitudinal statements</i>
<i>AS01 - Serbs are talented for sports</i>
<i>AS02 - Serbs are beautiful nation</i>
<i>AS03 - Serbs love folk music</i>
<i>AS04 - Serbs love to know everything</i>
<i>AS05 - In Serbia tradition is specially nurtured</i>
<i>AS06 - Serbs have unique and distinctive culture</i>
<i>AS07 - Celebrations play vital role in the lives of Serbians</i>
<i>AS08 - Church plays vital role in lives of Serbian people</i>
<i>AS09 - Serbia is rich in monuments</i>
<i>AS10 - Serbia is rich in archaeological sights</i>
<i>AS11 - Serbia is rich in monasteries</i>
<i>AS12 - Serbia is rich in nature beauties</i>
<i>AS13 - Serbia is as presented by the foreign media</i>
<i>AS14 - Serbia is as presented by the domestic media</i>
<i>AS15 - The media image of Serbia is better than reality</i>
<i>AS16 - The image of Serbia in media is positive</i>
<i>AS17 - The image of Serbia in media is full of contradictions</i>
<i>AS18 - Serbia is always burdened with problems</i>
<i>AS19 - Serbia is mainly agricultural and rural</i>
<i>AS20 - Serbia is mainly urban</i>
<i>AS21 - Serbia is modern and developed</i>
<i>AS22 - Serbia is European country</i>
<i>AS23 - Serbia is a country of glorified history</i>
<i>AS24 - Serbia has great national cuisine</i>
<i>AS25 - In Serbia people spend more than they have</i>
<i>AS26 - I would recommend every foreigner to visit Serbia</i>
<i>AS27 - Serbia is country of hospitality</i>

**Table 7:** Serbia brand identity attitudinal statements

## Conclusion

Referring to the first research question (brand associations of the brand image of Serbia), we found existence of brand image of Serbia in the minds of internal stakeholders. We presented brand image of Serbia-brand attributes (symbol and personality), brand benefits and brand attitudes. Serbia brand personality is represented by a stubborn, proud and courage old man writing with both Cyrillic and Latin alphabet.

Serbia brand associations are tightly connected to the first three top-of-the-mind associations: home/homeland (17.1%), poverty/struggle (3.4%), sports/sportsman (3.1%) and nature beauties (3.1%). Furthermore, according to our examinees, Serbia could be best

represented by the pictures of nature (22.6%), sights of Belgrade (8.4%) and traditional village in Šumadija (5.8%)

Serbia brand symbols are tightly connected to the herald, anthem, flag and pride. The Serbs are most proud of sportsmen (18.8%), scientist Nikola Tesla (9.6%) and local people (6.8%). Approximately 60% of examinees have positive feelings toward Serbian national symbols (herald and anthem). It may appear that people need more time to accept the new-old symbols widely. Serbs are big fan of sports and their national teams. People tend to identify themselves more with national team than with state symbols. This should not be surprising. During the last two decades of poverty and hardships Serbia went through, successes of Serbian national teams and individuals representing Serbia were rare reasons for celebration, proud and happiness.

Referring to the research question 2 (elements of Serbia brand identity) we identified 6 main elements: People, Modernity, Media bias, Tourist destination, National treasury and Cultural uniqueness. These elements explained approximately 56% variance of the Serbia brand identity construct. It was found that People are most significant brand identity element. Though they live in country burdened with problems, Serbian people are found to love to celebrate with the sounds of Serbian folk music. They are talented for sports, curious and beautiful. Second strongest element is Modernity. Serbia is found non-modern, non-urban, under-developed and non-European. The third element is Media bias. It was found that Serbian reality is not authentically presented in domestic in foreign media, whilst always negatively biased. The fourth element is Tourist destination. Serbia was found to be hospitable country, with great cuisine and glorious history, recommendable to every foreign visitor. Fifth element of brand identity is found to be National treasury. Serbia is perceived as rich in archeological sites, monuments, monasteries and natural beauties. Finally, the sixth element is found to be cultural uniqueness. Serbia is described as a country with relatively distinctive culture, where tradition, village and church play vital role in the lives of people.

## Biography

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## THE RELATIONSHIP BETWEEN BANK ADVERTISING AND BANK CUSTOMER SATISFACTION: A PILOT STUDY IN GREECE

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### Abstract

In the banking sector, which is considered to be one of the most dynamic sectors in the economy, advertising is the most popular way of attracting customers. The current study's aim is to explore the effects of bank advertising and its elements on satisfied bank customers. 430 self-administered questionnaires were used in this study at the end of 2008 in Greece by employing a convenience sample. Reliability analysis, Somers'd asymmetrical testing and path analysis were used for statistical analysis purposes. The findings obtained in this study suggest that consumer loans, credit cards, television, and frequency had the statistically highest effect on the total satisfaction of bank customers. This empirical study was tested in a specific context, Greece. The results may not be easily generalized due to sample and measurement limitations. Therefore, similar studies should be done in more countries to validate the current findings. This study offers empirical findings from the banking sector, where few studies exist and therefore expands our knowledge in this field. In addition, the main emphasis was on satisfied customers and no other study focusing on them has been accounted for in the bank marketing literature.

**Keywords:** Bank advertising, financial products, services marketing, customer satisfaction, Greece

### Introduction

Since the 1980s the financial services industry, including the banking one, has faced new challenges all over the world, such as deregulation, globalization, technology advancement, increased competition, recessions, image problems (Albers-Miller and Straughan, 2000; McKechnie and Leather, 1998). In addition, the hard competition in the financial market for personal financial services has made people recognize the increasing importance of the role of marketing and advertising for financial services organizations (McKechnie and Leather, 1998). Banks that had previously been reluctant to fully utilize advertising embraced it in the hope of overcoming their growing problems (Albers-Miller and Straughan, 2000).

In reality, the majority of banks advertise their products and services. However, Slater (1990) asserts that banks have tended to use the wrong type of advertising or bad advertising. Furthermore, Holstius and Kaynak (1995) reported that the right advertising decisions must be made to avoid costly mistakes. In practice advertising has effects on sales volume and improved public image. However, the selection of the advertising medium, the message, and the format are critical elements of a successful advertising campaign in the insurance industry, a subsector of the financial service market, (Aduloju et al., 2009). In addition, in the Australian bank market, Metwally (1993) found that the rates of return on advertising of the small banks are much lower than those of the large banks.

Banks are financial service institutions, and thus bank advertising conceivably differs from product advertising (Hsu and Ho, 1988). Bank advertising has tended to create a sterile image of banking (Blanchard and Galloway, 1994) and perhaps this is the reason why financial services advertisements have been poorly received by consumers (Zinkhan and Zinkhan, 1985). The literature indicates a scarcity of published research on financial services advertising and more specifically on bank advertising (Albers-Miller and Straughan, 2000; Laskey et al., 1992). The majority of the bank marketing literature has focused on various marketing issues rather than on advertising practice. This is a phenomenon that is observed in the service industries despite the growing importance of the service sector in the global economy, there has been a limited amount of services advertising (Bang and Moon, 2002).

The fact that bank advertising is an understudied area at international level, and on a national basis in Greece, makes it a desirable research topic. The purpose of this study is to explore the effects of bank advertising on satisfied bank customers. More specifically the objectives are to identify:

1. Which items that describe the advertising style or content (AdC), the advertised products (AdP) and the media used for advertisement communication (AdM) are related to the total satisfaction level (TSL) of the bank customers.
2. Whether the factors of AdC, AdP and AdM can be predictors for the TSL of the bank customers.

In order to support the purpose and the objectives of this study the following general hypotheses and theoretical model were formulated:

H1: The customer satisfaction level is influenced by the advertised bank products.

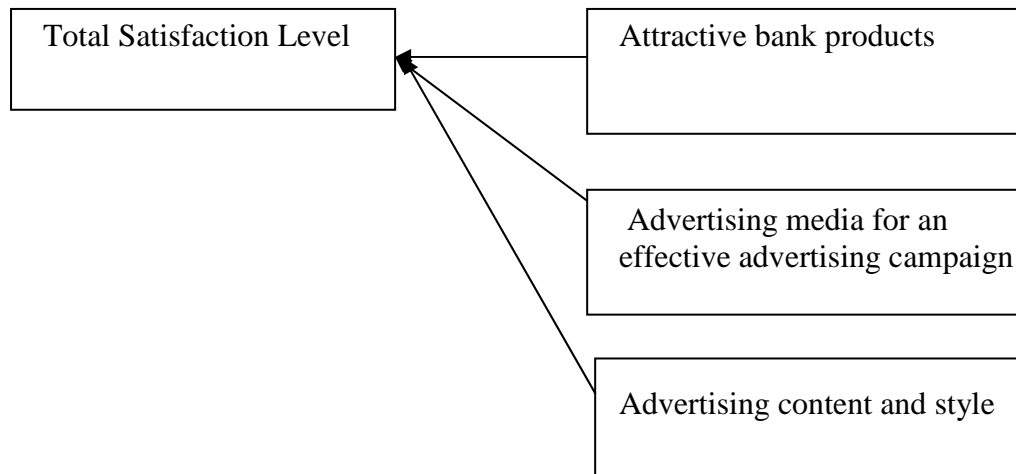
H2: The customer satisfaction level is influenced by the advertising media used in the advertising campaign.

H3: The customer satisfaction level is influenced by the advertising content and style.

H4: The model is statistically significant for predicting the effects of the three advertising attractiveness factors on bank satisfied bank customers.

The theoretical model for our study is illustrated in Figure 1 with the focus on the Greek banking sector.

*Figure 1. Characteristics of advertising impact on satisfied bank customer*



The rest of the paper is organised as follows. In the next section we briefly review the literature on services advertising and the Greek banking sector. Subsequently, we describe the research methodology and discuss our findings. Finally, we conclude our paper with a summary, a discussion of the limitations of our approach and some directions for future research.

## Literature Review

### Services advertising

Shostack (1977) argued that advertising focusing on services should make efforts to establish non-abstract or tangible manifestations of their intangible services for effective mass media advertising. Berry and Clark (1986) also emphasized the need to tangibilize services through advertising by using four different ways, including visualization or association.

Hsu and Ho (1988) point out that service advertising has three roles to play to the consumers in order to deal with the intangible nature of services:

- To create the context in which the company operates in the mind of the customer. Service advertising should describe the world in which the firm operates, so as to help develop favorable expectations and attitudes among consumers towards the services offered.

- To identify the company with the customer. The firm should project an image of itself and the services it offers that appeals to its target market. The greater the degree of positive identification, the greater the likelihood of consumers using the firm's services.
- To make the service tangible. Because a service itself cannot be tangible, consumers must rely on a manipulation of tangible clues to define the service "realities". Service advertising should focus on the tangible clues as to the nature and quality of the intangible service being offered.

Also, Hill and Gandhi (1992) provided the following guidelines for services advertising. These are:

- To make the service more tangible by showing physical evidence, using concrete language and encouraging word of mouth communication
- To present the customer provider and the customer in the advertisements
- To document the level of service being provided e.g., performance records
- To show the service encounter through a sequence of events

Tripp (1997) reviewed the limited number of empirical studies on services advertising from 1980 to 1995 and found that research in this topic has produced some contradictory outcomes and that the focus has consistently been on differences between product and services advertising in the message-appeals and information cues. Tripp asserts that these studies have provided initial confirmation of differences in the way goods and services advertisers present their messages. Service advertisements tend to have lower amounts of information than product advertisements (Abernethy and Franke, 1996). Additionally, Grove et al., (1995) in their study, classified each product and service using the Shostack (1977) scale and found that the amount of information increases as the product or service becomes more intangible. Mortimer (2000) found that 58 percent of financial advertisements contained information on performance data compared with only 8 percent of holiday and hotels.

### **The Greek banking sector**

Banks as financial organizations play a dominant role in the nation's economy. Since the mid 1980s the Greek banking sector underwent significant structural changes to enhance its profitability, (Pasiouras and Sifodaskalakis, 2010, Vasiliadis, 2009; Athanasoglou et al., 2005; Noulas, 2001), which to a large extent can be credited to the establishment of the European market (Pasiouras and Sifodaskalakis, 2010). For example, liberalization, deregulation, mergers and acquisitions, international expansion, the expanding of product portfolios and services were some of the important changes.

These reforms were adopted gradually and supported the further improvement of the organizational framework and the more efficient operation of banks and financial markets. These changes, along with the adoption of new technology and an improvement in

infrastructure, have been catalytic to the performance of banks in the new and more competitive economic environment, within which the banking sector now operates (Athanasoglou et al., 2005). Table 1 describes the structure of the Greek banking sector in terms of number of banks, branches, employees and ATMs in 2008.

<i>Banks</i>	<i>Number of Banks</i>	<i>Number of Branches</i>	<i>Number of Employees</i>	<i>Number of ATMs</i>
<i>Greek Commercial Banks</i>	19	3640	57842	6906
<i>Foreign Banks</i>	30	327	6665	441
<i>Specialized Credit Institutions</i>	1	4	454	
<i>Cooperative Banks</i>	16	126	1204	228
<i>Bank of Greece</i>		65	2494	
<i>Total</i>	66	4162	68659	7575

*Table 1: Greek banking sector structure, number of banks, branches, employees and ATMs in 2008*

*Source: Hellenic Bank Association, data referred to 2008*

In terms of advertising expenditures the sector spent 157.3mln€ in 2009 which is an increase of 230 percent in comparison with the 68mln€ spent in 2000. The distribution of the advertising budget was; newspapers 42.4 percent, television 34.7 percent, radio 13.1 percent and magazines 9.8 percent.

## Methodology

For the purpose of the study a questionnaire with 18 questions and three sections was developed. The first section asked the respondents to answer introductory questions regarding the banks that they use for their transactions and the level of their satisfaction with them. The total satisfaction level (TSL) was measured on 7 point Likert scale with ranging from “1= Very Unsatisfied”, to “7= Very Satisfied”. The second section explored advertising issues such as the advertising media for an effective advertising campaign (AdM) with 8 items, the preferable advertised bank products (AdP) contains 10 items and the advertising content and style (AdC) with 11 items. The items were measured on 7 point Likert type scale with scores “1=Very Low Impact”, to “7=Very High Impact”. The proposed items measuring AdP, AdM, and AdC (see Appendix) generated from literature review and expert opinions. The third section asked the respondents to answer six demographic questions.

445 self administered questionnaires were collected in the Thessaloniki area (second larger city in Greece) at the end of 2008, and yielded 430 usable questionnaires for the study. The convenience sampling method was employed. Reliability analysis was employed to evaluate the independent and dependent constructs by using Cronbach’s alpha coefficient, Somers’d asymmetrical testing was employed to test the hypotheses, and finally AMOS 7.0 was used to estimate the path analysis through a structural equation model (SEM).

<i>Sample characteristics</i>			
		<i>Frequencies</i>	<i>Percentage (%)</i>
<i>Gender</i>	<i>Total</i>	430	100.0
	<i>Male</i>	204	47.4
	<i>Female</i>	226	52.6
<i>Age</i>	<i>Total</i>	430	100.0
	18-25	145	33.7
	26-35	84	19.5
	36-45	84	19.5
	46-55	85	19.8
	56-65	24	5.6
	65+	8	1.9
<i>Marital Status</i>	<i>Total</i>	430	100.0
	<i>Single</i>	199	46.3
	<i>Married</i>	206	47.9
	<i>Divorced</i>	18	4.2
	<i>Widowed</i>	7	1.6
<i>Education</i>	<i>Total</i>	430	100.0
	<i>Have not finished primary education</i>	1	0.2
	<i>Primary</i>	12	2.8
	<i>Gymnasium diploma</i>	16	3.7
	<i>Lyceum diploma</i>	82	19.1
	<i>Vocational/Trade school</i>	61	14.2
	<i>University student</i>	110	25.6
	<i>Bachelor degree</i>	120	27.9
	<i>Masters degree</i>	18	4.2
	<i>Doctoral degree (PhD)</i>	10	2.3
<i>Occupation</i>	<i>Total</i>	430	100.0
	<i>Public Employee</i>	71	17.4
	<i>Private Employee</i>	112	26.0
	<i>Free lancer</i>	75	16.5
	<i>Labourer</i>	8	1.9
	<i>Retired</i>	110	4.7
	<i>Housewife</i>	30	7.0
	<i>University Student</i>	20	25.6
	<i>Unemployed</i>	4	0.9
<i>Income</i>	<i>Total</i>	430	100.0
	<i>Up to 300.00€</i>	68	15.8
	<i>301.00-600.00 €</i>	54	12.6
	<i>601.00-900.00 €</i>	69	16.0
	<i>901.00-1200.00 €</i>	88	20.5
	<i>1201.00-1500.00 €</i>	84	19.5
	<i>1500.00€+</i>	67	15.6

Table 2: Sample profile

## Findings

### Sample's profile

The demographic profile of the sample of this study is presented in Table 2; regarding gender, 52.6 percent were women and 47.4 percent were men; one third of the sample fell in the age range of 18-25 years, and 47.9 percent of the sample was married. The distribution of the educational level of respondents showed that most respondents held at least a bachelor degree (37.4 percent) or were pursuing one (25.6 percent). In regard to occupation, most respondents were employed in the private sector or were self employed (43.4 percent). Finally, as far as net individual monthly income is concerned, most respondents (40 percent) fell in the categories of 901 to 1500 €.

### Reliability analysis

The internal consistency of each scale (set of items) AdP, AdM, AdC, was computed by using the coefficient Cronbach  $\alpha$ . In particular, the highest reliability,  $\alpha=0.905$  was for the AdC scale (11 items), while the Cronbach's alpha score for the AdM scale (8 items) was  $\alpha=0.794$ , and for the AdP scale (10 items) was  $\alpha=0.849$ . All scales demonstrate acceptable reliability since their scores were greater than 0.7,  $\alpha>0.7$  (Pallant, 2005, p. 90).

### Asymmetrical testing

Somers' d; (Dyx) is a asymmetrical measure of association for ordinal variables and it ranges in values between -1 and +1 (Somers, 1962). Where higher than -1 or 1 absolute values indicate stronger relationship between each two ordinal variables (predictor; X and outcome variable; Y). So we can measure the effect size of Ad(X) on Y. In our case the asymmetrical testing focused on the relation of independent variables (AdM, AdP and AdC) with the dependent variable (TSL). Based on Somers D analysis (Table 3) we could conclude that the effect of the characteristics of advertisings attractiveness in the consumer satisfaction is not statistical significant in the case of the 9 variables, AdP5, AdP6, AdP9, AdP10, AdC3, AdC4, AdC5, AdC8 και AdC10.

The items, consumer loans (AdP1) and credit cards (AdP4), from the advertised products (AdP), with  $d=0.248$  and  $d=0.240$   $p=0.000$  respectively, the television medium (AdM1), from the advertising media (AdM), with  $d=0.216$ ,  $p=0.000$ , and frequency (AdC2) from the advertising content (AdC), with  $d=0.206$ ,  $p=0.000$  had statistically the highest effect on total satisfaction of bank customers.

<i>Variable code</i>	<i>Somers'd value</i>	<i>P value</i>	<i>Variable code</i>	<i>Somers'd value</i>	<i>P value</i>	<i>Variable code</i>	<i>Somers'd value</i>	<i>P value</i>
<i>AdM1</i>	0.216	0.000 *	<i>AdP1</i>	0.248	0.000*	<i>AdC1</i>	0.174	0.000*
<i>AdM2</i>	0.100	0.010 *	<i>AdP2</i>	0.136	0.001*	<i>AdC2</i>	0.206	0.000*
<i>AdM3</i>	0.154	0.000 *	<i>AdP3</i>	0.078	0.041*	<i>AdC3</i>	0.072	0.075
<i>AdM4</i>	0.110	0.005 *	<i>AdP4</i>	0.240	0.000*	<i>AdC4</i>	0.065	0.079
<i>AdM5</i>	0.135	0.000 *	<i>AdP5</i>	0.030	0.448	<i>AdC5</i>	0.058	0.125
<i>AdM6</i>	0.129	0.001 *	<i>AdP6</i>	0.019	0.639	<i>AdC6</i>	0.100	0.010*
<i>AdM7</i>	0.176	0.000 *	<i>AdP7</i>	0.101	0.010*	<i>AdC7</i>	0.102	0.012*
<i>AdM8</i>	0.122	0.002 *	<i>AdP8</i>	0.104	0.008*	<i>AdC8</i>	0.073	0.063
			<i>AdP9</i>	0.067	0.107	<i>AdC9</i>	0.146	0.000*
			<i>AdP10</i>	0.055	0.152	<i>AdC10</i>	0.068	0.097
						<i>AdC11</i>	0.158	0.000*

Table 3. Somers' d asymmetrical testing between total satisfaction from bank services (TSL) and bank advertising attractiveness (variables AdP, AdM and AdC)

Note: Where AdM= items that measure the preferable advertising media, AdC=items that measure the preferable advertising content and style and AdP= items that measure the preferable advertised bank products. (\*): stat. significant for  $p < .050$

### Path analysis

The non significant variables were omitted in the path analysis, since this phase aimed to explore the statistical significance of the model for the prediction of the effects of the three advertising attractiveness factors on bank satisfied customers. A structural equation model (SEM) with the scope to show how well the data fit into the hypothesized model was constructed (Figure 2). With this model we want to investigate the pattern of relationships between the three advertising constructs and the satisfaction grade. Based on the responses of bank customers to the advertising construct scale items the magnitude of the three latent variables can be estimated. SEM can then be used to estimate paths between the three latent factors and the satisfaction grade. The structural paths between latent variables are relatively free of the unreliabilities of their measurement indicators (Ho, 2006).

The minimum sample size for our study was calculated based on Hair et al. (1998) that the most appropriate minimum ratio is ten respondents per parameter. In our model the sample was 430 cases, more than the 290 minimum cases (29 variables x 10 cases). For our model we used 21 variables, Ad(X) 20 indicator variables, 6 variables AdP, 8 variables AdM and 6 variables AdC, and 1 variable for the measurement of satisfaction (TSL). A structural equation model (SEM) by using the software AMOS 7.0 was applied to examine relationships between the constructs and their measures.

Figure 2 displays a conventional regression analysis problem, predicting a single observed variable (TSL: Total Satisfaction Level) as a linear combination of three other observed



variables (AdP, AdM and AdC: The advertising bank customer appeal). The above Figure 2 presents the regression model to be tested. This model evaluates how scores on AdP, AdM and AdC are related to TSL. As it is not assumed that TSL will be perfectly predicted by a linear combination of AdP, AdM and AdC, the model includes an error term. This variable (er1) is not directly observed. The single arrows represent linear dependencies and the double headed arrows the possible correlations between the three predictor variables.

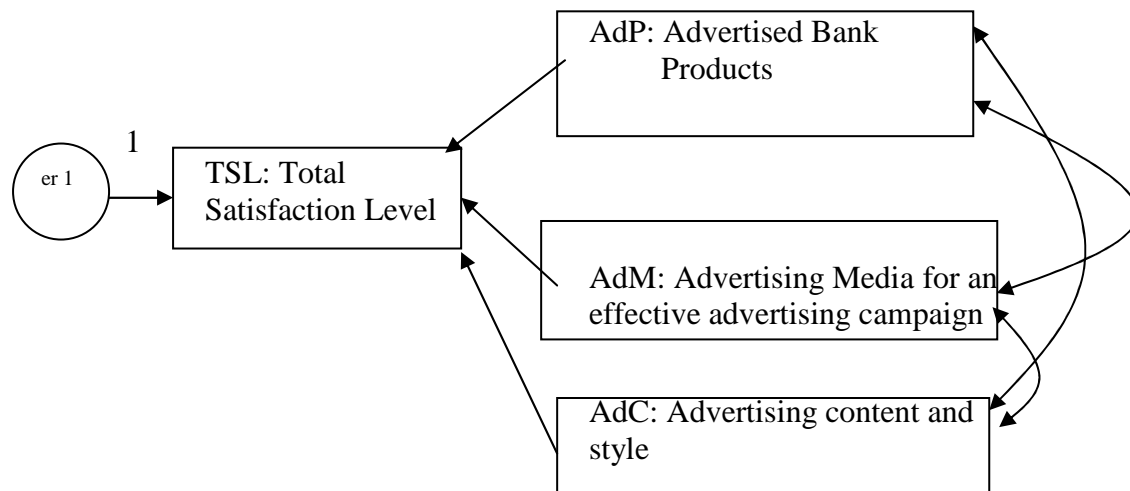


Figure 2. The hypothesized model: characteristics of advertising impact on satisfied bank customer

In continuation the twenty variables adjusted to express via factor scores the three factors representing in theory. The final factor scores used in SEM model analysis.

			Estimate	S.E.	C.R.	P	Label
TSL	<---	AdP	.263	.064	4.120	***	
TSL	<---	AdC	.231	.064	3.611	***	
TSL	<---	AdM	.227	.064	3.551	***	

Table 4. Regression Weights: (Group number 1 - Default model)

As we can see in the above Table 4 the critical ratio; C.R. is more extreme than  $\pm 1.96$  indicates a significant path ( $p < .05$ ). Based on this criterion, it can be seen that the variables AdP, AdC and AdM are highly significant predictors of TSL (C.R. = 4.12,  $p < .001$ ; C.R. = 3.61,  $p < .001$ ; C.R. = 3.55,  $p < .001$ ) respectively.

<i>Dependent Endogenous variable</i>		<i>Independent Predictor (exogenous) Variables</i>	<i>Estimate</i>
TSL	<---	AdP	.193
TSL	<---	AdC	.170
TSL	<---	AdM	.167

Table 5. Standardized Regression Weights: (Group number 1 - Default model)

From the above Table 5 we can observe that the three variables are positively and significantly related to TSL ( $\beta=0.19$ ;  $\beta=0.17$  and  $\beta=0.17$ , respectively). Thus, it can be concluded that the greater the perception of advertising appeal factors (AdP, AdC and AdM) to the customers, the greater each customer's total satisfaction level (TSL).

			<i>Estimate</i>	<i>S.E.</i>	<i>C.R.</i>	<i>P</i>	<i>Label</i>
AdP	<-->	AdC	.002	.049	.044	.965	
AdC	<-->	AdM	.002	.049	.038	.970	
AdP	<-->	AdM	.002	.049	.043	.966	

Table 6. Covariances: (Group number 1 - Default model)

			<i>Estimate</i>
AdP	<-->	AdC	.002
AdC	<-->	AdM	.002
AdP	<-->	AdM	.002

Table 7. Correlations: (Group number 1 - Default model)

The covariances between the three predictor variables are all non significant by the C.R. test ( $p>.001$ ) (Table 6). Also the standardized correlation coefficients are all positive but too low and equal to 0.002 (Table 7). The predictor variables of AdC, AdM and AdP accounted for 0.094 or 9.4 percent of the variance of TSL. As such the residual or the amount of unexplained variance (er1) for this model is 90.6 percent.

## Conclusions

This study puts emphasis on the use of three advertising appeal factors (AdC, AdP, AdM) to enhance total bank customer satisfaction. We have concluded that the overall results of our study were very positive based on the confirmation of our hypotheses that those factors are related and have a significant affect on the overall bank customer satisfaction level (TSL) in our sample. The statistical model of our study (a model with 20 advertising appeal variables

and a TSL variable) can explain only a part of the overall TSL, however this can also be a useful predictor that those three advertising factors have an impact to the TSL. The TSL can be related with other promotional and marketing elements but also with forces from the marketing environment.

The results support the idea that bank customers perceived that the advertising content (AdC), the advertised product portfolio (AdP) and the media structure used to advertise those products (AdM), can separately affect their satisfaction level from the whole bank service offered. Bank customer satisfaction is related to those three advertising appeal factors, especially with all the media alternatives we have investigated (e.g., TV, newspapers, radio, periodicals, internet, prospectus, mobile phone and billboard), the six product categories e.g., consumer loans, professional loans, loans for housing, credit, bank-insurance and investments and finally the six advertising content or context based characteristics e.g., slogan, frequency, continuity, copy/storyboard, testimony/witness and advertising content e.g., explanations; details. The advertising appeal factors are not related between them, so we can say that they're distinguishable between them.

Crane, (1990) suggests "probably the most important aspect of advertising is the creation, enhancement, and maintenance of a positive brand attitude". In this sense, bank marketing managers and advertising practitioners, in order to avoid confusion and misunderstandings, should be careful when using advertising as a marketing communication medium, and especially when focusing on real products benefits for consumers. This way banks can enhance their corporate image and reduce consumers' perceived risks. On the other hand, bank practitioners should understand total customer satisfaction in a more holistic way by encompassing the whole advertising dimension. Moreover, studies by Balmer and Stotvig, (1997) and Blanchard and Galloway, (1994) criticize the use of advertising as medium for reinforcing the similarities between financial service providers, rather than the differences.

This study is one of the very few which has focused on advertising effects in the banking sector and more particularly the first one which has centered on satisfied bank customers. It should be noted however, that this study has some limitations to be discussed. More research is needed to better understand the current state of the advertising environment and the banking sector, especially in today's very uncertain and turbulent globalized economy, in order to confirm and validated the findings of the current study.

Although, the sample in the current study was adequate for the purposes of this study and allowed reasonable conclusions to be drawn; it cannot be considered representative and thus the results can not be easily generalized. The findings are limited by the sample and measures used. Larger empirical studies using some other measures and samples should be done to replicate and expand the current outcomes. In addition, since the sample was convenient in nature, future studies should use random sampling to improve the sampling reliability. Finally, several additional issues rose during the analysis, but could not be presented here

due to constraints of purpose and space. For example, in this study neither comparison was done between customers' sub-segments, e.g., men versus women, nor was emphasis put on corporate bank customers. These themes may provide a suggestion guide for future studies.

Despite the current limitations, the present study brought to light some findings which may help bank marketers and advertising practitioners to create more appealing and effective advertisements for bank customers. In addition, the findings of the present study expand our overall knowledge of advertising's effects on bank customers, where a dearth of studies exists. Therefore, this research is worthwhile in general. Furthermore, the findings of this study could be a basis for fruitful avenues for future research on the topic in Greece and internationally.

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## BERTOS MANUFACTURING CORPORATION: EVALUATING MARKETS TO INVEST ABROAD

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### Abstract

This case deals with the key considerations when planning an international expansion through direct investment in foreign markets. These considerations must be addressed by a finance company seeking to establish foreign subsidiaries to support the international sales of its parent firm, a U.S.-based multinational enterprise. The company already operates three foreign subsidiaries--in Canada, Mexico (both NAFTA members), and the United Kingdom--but wishes to increase this network further through entry into additional markets. Ten candidate countries are being considered to determine the five most suitable for entry. Hence the need for a rational decision of where to invest.

**Keywords:** Subsidiaries; multinational enterprise; leveraged institution; greenfield investment; wholesale financing; captive finance company; retail installment contract

### Introduction

Victoria Pernarella is a recent university graduate in business administration and a new hire in Bertos Financial Services, Inc., a major finance company in Nashville, Tennessee. After a month long rotational training to gain insights into the company's scope of activities, she was placed in the international department where she has been assigned to work on a project. Bill Pappas, her manager, had asked her to analyze a select number of foreign countries to determine the best prospects for the local establishment of subsidiary finance companies. He went on to clarify that the mode of entry into the foreign markets--acquisition of existing company or a greenfield investment (from the ground up)--was not a primary consideration at this stage. The candidate countries were Argentina, Australia, Brazil, China, France, Netherlands, Russia, Switzerland, Turkey, and Venezuela. With finance companies highly leveraged institutions, the firm was prepared to provide the initial amount of equity capital needed for the establishment of five such institutions. At this stage therefore, the study ought to limit its recommendation to a corresponding number of foreign countries.

With this information at hand, Victoria started reflecting on the approach to use for her analysis. Sensing the need to prove her capabilities by delivering a high quality study for her

first company assignment, she thought appropriate to start by reviewing first the pertinent company information.

### **Background of Parent Company**

Bertos Manufacturing Corporation (BMC) is one of the largest companies of the country in the manufacturing of construction and mining equipment, and engines. BMC draws its origin in a California firm organized in 1890 to manufacture steam-powered tractors for farming. The firm was nominally capitalized and aspired to make inroads in the local market by having its tractors plow California fields. However, soon after the turn of the century, an abandoned manufacturing plant by a failed tractor company in a major manufacturing center in Illinois was instrumental in the relocation of operations in the Midwest. The location of this center on the Mississippi River made it a prime transportation hub offering important prospects for the young company. Indeed, the move proved a turning point in the development of the company. Domestic sales grew so significantly that by 1911 the factory employed a little over 600 individuals. A natural consequence of the domestic momentum was the firm's entry into foreign markets through tractor exports to Argentina, Mexico, and Canada.

World War II was a company milestone as it created a sharp increase in the demand for tractors to built airfields and other military facilities in strategic sites of the Pacific. However, it was during the post-war construction boom that the company grew at a rapid pace. A series of mergers and acquisitions diversified operations into the current scope of products and contributed to BMC's growth to an industrial company of national and international dimension. A successful export-oriented strategy led to the establishment of a manufacturing venture outside the United States in 1950, which marked the beginning of BMC's development into a multinational corporation.

The company operates in two primary lines of business: machinery and engines. The machinery line of business designs manufactures and sells construction, mining, and forestry machinery, including track and wheel tractors, hydraulic excavators, pipe layers, log loaders, off highway trucks, and related parts. The engines business line designs, manufactures and sells diesel and natural gas engines and gas turbines, which, in addition to their use in the company's own machines and vehicles, provide power for boats, ships and locomotives.

The recent financial crisis (2008) led to the restructuring of operations and renewed management's commitment to fuel efficiency, quality, technology and safety of the company's machinery and engine products. Overall, BMC manufactures some 400 products which are sold both at home and abroad through a network of dealers. The company has a worldwide network of 220 dealers: 63 dealers in the United States and 157 in other countries. To accommodate domestic and international demand for its products and components the company has built 109 plants in different part of the world. Of these, 51 plants are located in the United States and 58 in foreign countries, namely, Australia, Belgium, Brazil, Canada,



England, France, Germany, Hungary, India, Indonesia, Italy, Japan, Mexico, the Netherlands, Northern Ireland, the People's Republic of China, Poland, Russia, South Africa and Sweden. The company also licenses or subcontracts the manufacture of BMC-branded clothing, hats, footwear, and other consumer products.

To support higher volumes, growth and new product introductions, BMC's worldwide employment is a little over 100,000, split evenly between the United States and the rest of the world. Consolidated revenue last year amounted to about \$45 billion and net profit (after taxes) \$3.5 billion (Exhibit 1). More than half of the total revenue was generated outside the United States, while the North American market was the single largest source. A breakdown of revenues by geographic region is provided in Exhibit 2.

Although this performance represents the culmination of an effective international strategy, BMC has been increasingly concerned about its future potential in the global market place. Its board of directors has recognized that although opportunities for future growth exist, international competition may undermine the maximization of consolidated after-tax returns. To offset the effects of such a trend, the board, in its last meeting, decided to explore new avenues for growth. A top prospect was the international expansion of financial services to support the overseas dealer sales of BMC products.

#### **Financial Subsidiary and Scope of Activities**

Following the practice of other industry leaders (e.g., General Electric, Motorola, and General Motors), BMC finances domestic sales through a wholly-owned, and separately incorporated, finance company (hence the reference to such a firm as a captive finance company). Established in Nashville, Tennessee, Bertos Financial Services, Inc. (BFSI) promotes the sale of the parent's products and services by engaged in the extension of credit. Specifically, BFSI extends wholesale financing to, and purchases retail installment contracts from, franchised dealers. Also, it offers various forms of insurance to customers and dealers to support the purchase and lease of equipment. Further, it accommodates the credit needs of its parent corporation as needed.

In its last meeting the BMC board felt that this spectrum of credit activities pursued domestically could also be duplicated abroad and add important impetus in the company's international growth momentum. Currently BFSI's presence abroad is limited to three subsidiaries located in the following countries--Canada and Mexico (both members of the North American Free Trade Agreement), and the United Kingdom. The board believes that establishment of finance companies in an additional number of select foreign countries would be instrumental in maximizing corporate investment returns. To this end it has requested an in-house study to screen foreign prospects and expressed the interest to review recommendations in its forthcoming meeting. It was under these circumstances that Bill Papas assigned the task for this study to Victoria.

### Developing Criteria for Country Recommendation

To screen the best five prospects among the ten candidate countries for the establishment of subsidiary finance companies, Victoria thought appropriate to develop a set of criteria on which to base her recommendation. Although she could readily identify several key criteria, she felt she should give also due consideration to the rules and regulations governing bank operations in the candidate countries. Granted that the objective was not to set up commercial banks but finance companies; however, the banking regulatory framework provided an indication of the kind of credit and financial environment prevailing in these countries.

Although the focus of her study was the best five foreign prospects, she felt important to defend her recommendation by also addressing the weaknesses of the excluded countries.

### Assignment

1. Identify the key criteria and considerations that need to be taken into account in evaluating BFSI entry in the proposed foreign markets.
2. Of the countries under consideration, which five would be most suitable for the immediate establishment of a BFSI subsidiary? Highlight the key issues for each of the selected countries and discuss the reasoning behind your recommendation.
3. Which countries would be unsuitable for a BFSI subsidiary at this time, and what are the basic shortcomings in each case?

*Exhibit 1 Financial Highlights of BMC*

<i>Items</i>	<i>Billions of dollars</i>
<i>Total revenues</i>	<i>\$44.9</i>
<i>Profit after taxes</i>	<i>3.5</i>
<i>Assets</i>	<i>56.1</i>
<i>Stockholders' equity</i>	<i>8.9</i>

*Exhibit 2 Breakdown of Revenues by Geographic Region*

<i>Region</i>	<i>Billions of dollars</i>	<i>Percent</i>
<i>North America</i>	<i>\$19.7</i>	<i>43.88</i>
<i>EAME*</i>	<i>14.3</i>	<i>31.85</i>
<i>Latin America</i>	<i>4.5</i>	<i>10.02</i>
<i>Asia Pacific</i>	<i>6.4</i>	<i>14.25</i>
<i>Total</i>	<i>\$ 44.9</i>	<i>100.00</i>

*\*Europe, Africa, and the Middle East.*

## Biography

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## HOW TO STRIVE TOWARDS A SUCCESSFUL ERP IMPLEMENTATION: EMPIRICAL RESULTS

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### Abstract

The purpose of this paper is to highlight the need of a methodological frame work for the Enterprise Resource Planning (ERP), implementation process.

A survey, using a questionnaire, validated by Cronbach's Alpha coefficient, was conducted among 30 companies in Israel. Data was analyzed by using inferential statistics techniques to facilitate the understanding of the ERP implementation success factors.

A quantitative ERP successful implementation process forecasting model was developed. A success factor indicator (SFI) measuring to which extent the implementation process was successful, was defined. The results show that management should be focused on two major subjects: a proven success story within the organization and organization personnel involvement.

The article presents a quantitative forecasting model that can be easily utilized as a facilitator in a successful ERP implementation.

**Keywords:** Enterprise resource planning (ERP), Success factors, Information systems

### Introduction

Enterprise Resource Planning (ERP) systems are defined as configurable information system packages that integrate information and information-based processes within and across functional areas in an organization (Kumar and Hillegrersberg, 2000). ERP systems are commercial software packages that enable the integration of transactions-oriented data and business processes throughout the organization. From a base in manufacturing and financial systems, ERP systems may eventually allow for the inter-organizational supply chains (Davenport, 1998; Markus and Tanis, 2000). Because these systems touch so many aspects of a company's internal and external operations, successful deployment and use are critical to organizational performance and survival (Markus et al., 2000). These commercial software packages promise the seamless integration of all the information flowing through company: financial and accounting information, human resource information, supply chain information and customer information. For managers who have struggled, at great expense and with

great frustration, with incompatible information systems and inconsistent operating practices, the promise of an off-the-shelf solution to the problem of business integration is enticing (Davenport, 1998). Because these systems touch so many aspects of a company's internal and external operations, their successful deployment is critical to organizational performance and survival. ERP systems promise to provide an integrated, packaged software solution to the information needs of organizations to replace legacy information systems, which are usually aging piecemeal solutions created by Information Systems (IS) departments or older off-the-shelf packages that have become difficult to maintain and no longer meet the business needs of the organization. Despite the promise of ERP systems, these software solutions have proven "expensive and difficult to implement, often imposing their own logic on a company's strategy and existing culture" (Pozzebon, 2000). To improve business performance, organizations require an efficient planning and control system that synchronizes planning of all processes across the organization. The key to competitiveness lies in a solid IS infrastructure seamlessly aligned with core business processes developed for the delivery of high quality products and services to customers within the optimal time. These demands have prompted more firms to shift their IS strategies from developing in-house information systems to purchasing application software, such as ERP systems, to generate synergies and enhance operating efficiency (Hong and Kim, 2002). Under the pressure to proactively deal with the radically changing external environment, many firms have changed their IS strategies by adopting application software packages rather than in-house development (Gremillion and Pyburn, 1983; Laudon and Laudon, 1996).

It is certainly true that enterprise systems can deliver great rewards, but the risks they carry are equally great. When considering and implementing an enterprise system, managers should be careful not to be blinded to the hazards by their enthusiasm about the benefits.

One of the most enduring research topics in the field of IS is that of system success (Lyytinen and Hirschheim, 1987; DeLone and McLean, 1992; DeLone and McLean, 2003; Ballantine et al., 1996). In the case of ERP, system success takes on a special urgency, since the costs and risks of these massive technological investments rival their potential pay-offs. Failures of ERP system implementation projects have been known to lead to organizational bankruptcy (Bulkeley, 1996; Davenport, 1998; Markus and Tanis, 2000). Success depends on the point of view from which you measure it. People often mean different things when talking about ERP success. For example, people whose job it is to implement ERP systems often define success in terms of completing the project on time and within budget. However, people whose job it is to adopt ERP systems and use them to achieve business results tend to emphasize a smooth transition to stable operation with the new system. Markus et al. (2000) include many different dimensions in the assessment of success: a. Success viewed in technical terms; b. Success viewed in economic, financial or strategic business terms; c. Success viewed in terms of the smooth running of business operations; d. Success as viewed by the ERP-adopting organization's managers and employees, and e. Success as viewed by

the ERP-adopting organization's customers, suppliers and investors. Organizations that adopt ERP systems should be concerned with success, not just at the point of adoption but also further down the road. The importance of considering ERP success at multiple points in time was made clear in a case study by Laresen and Myers (1997), in which a successfully installed ERP system was later terminated when the company merged with another. Success may be assessed at three different points in time during the adopting organization's experience with an ERP system. These three distinct phases may be defined as follows: a. the project phase, during which ERP software is configured and rolled out to the organization; b. the shakedown phase, during which the company makes the transition from 'go live' to 'normal operation' and c. the onward and upward phase, during which the company captures the majority of business benefits from the ERP system and plans the next steps for technology implementation and business improvement. It is important not just how well the ERP system itself performs (e.g. accuracy, reliability and response time), but how well people in the organization know how to use, maintain and upgrade the ERP system and how well the business improves its performance with the ERP system (Markus et al., 2000). They addressed two related questions about the ERP experience. First, how successful are companies at different points in time in their ERP experiences and how are different measures of success related? Can early success be followed by failure and vice versa? Second, what problems do ERP adopters encounter as they implement and deploy ERP and how are these problems related to outcomes?

## **Methods**

### **The Survey**

A survey, using a questionnaire, was conducted among 30 companies in Israel. It was administered as an oral survey among 59 executives within these companies. The questionnaire (see appendix) contained 92 close-ended questions to measure the participants' attitudes towards the ERP implementation process. The questionnaire consisted of five sections as follows: A. Organization classification – describes the organization type, annual revenue, number of employees, etc; B. Implementation success indicators – depicts on a 1 to 6 scale the participants' estimation of the success of the ERP implementation process. For example, item B2 was: "Management's usage of the system reports". A high mark indicated that the organization management was using the ERP system as a supportive managerial tool, whereas a low mark indicated that the ERP system was not incorporated within the decision making process; C. Critical success factors analysis – illustrates the participants' attitude on a 1 to 6 scale of what the critical success factors of the ERP implementation were; D. Organizational changes following ERP implementation – depicts on a 1 to 6 scale organizational changes caused by the ERP implementation; E. Summary – describes the participants' overall conclusion on a 1 to 6 scale of how successful the ERP implementation

process was. The median of each questionnaire item and section was computed to verify respondents' attitudes.

The questionnaire's internal consistency was evaluated using Cronbach's Alpha coefficient (Cronbach, 1951). Table 1 presents the coefficients values for the entire questionnaire and for sections B-E. It shows that the internal consistency is satisfied (Allen & Yen, 2002).

Section	Entire questionnaire	(B)	(C)	(D)	(E)
Cronbach's Alpha	0.96	0.81	0.95	0.64	0.71

Table 1: Cronbach's Alpha coefficients

### Statistical analysis

Descriptive statistics was used to characterize the organizations involved in the research. The characteristics were: organization type (SMB- Small Medium Business, domestic companies, and global companies), number of employees, business type (manufacturing, service) and existing IT system. . In addition, the medians of the questionnaire sections were computed.

The following inferential statistics techniques were utilized: regression and correlation analysis, t-test and ANOVA. These techniques facilitated the understanding of the ERP implementation success factors.

### Success Factor Indicator

The Success Factor Indicator (SFI) is a multidimensional indicator that measures to which extent the ERP implementation process was successful. Bradley (2008) conducted a profound literature review in which he examined critical success factors for implementing Enterprise Resource Planning systems. We used his findings as guidelines for our study. The SFI is the numerical average of the responses to the following questionnaire items (on a 1-6 scale):

(1) *Successful ERP implementation in the organization* (section B, item 1) — measures the overall state of mind within the organization regarding the ERP implementation.

(2) *Management's usage of the system reports* (section B, item 2) – expresses the amount of confidence that the management has in the ERP system.

(3) *Users' satisfaction* (section B, item 6) – measures the users' satisfaction regarding the system.

(4) *The ERP system supports organizational functions* (section B, item 9) - measures to which extent various management functions utilize the ERP system.

(5) *Would you repeat ERP implementation project* (section E, item 1) – expresses the overall feelings of the personnel regarding the ERP implementation project.

(6) *Operations improvement as a result of the ERP implementation* (section E, item 3) – measures the amount of improvement gained due to the ERP implementation.

## Results

### Organizational Characteristics

The survey included 59 participants from 30 different companies of which 17% were SMBs, 53% were large domestic companies, and 30% were global companies (see section A in appendix). In regards to business type, 60% were manufacturers and 40% were service providers. Figure 1 presents the number of employees' distribution. One may observe that the majority employ more than 1000 employees.

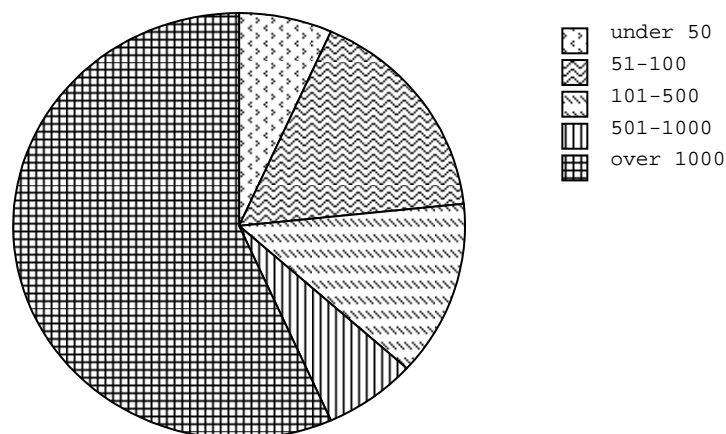


Figure1. Number of employees' distribution

The distribution of the companies' Information and Communication Technologies (ICT) systems is presented in Figure 2. The majority of the companies used SAP or ORACLE systems, while domestic software packages (PRIORITY, MAALE, ONE) were used by about one fourth of the organizations in the study.



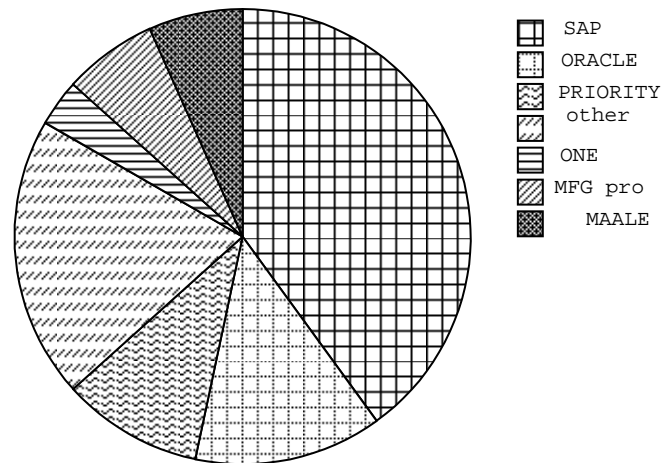


Figure 2: Existing ICT system distribution

### Respondents' attitude: median results

The respondents' attitudes are presented in Table 2. One may observe that the medians of the questionnaire sections are in the range of 4 to 5 within the scale of 1 to 6.

Appendix Section	Section Content	Number of Questions	Median
B	Implementation success indicators	10	5
C	Critical success factors	44	5
D	Organization changes following ERP implementation	3	4
E	Summary questions	6	5

Table 2. Respondents' attitude: median results

### Success Factor Indicator (SFI) Analysis

Correlation coefficients between the SFI indicator and all the responses to items in section C in the appendix (critical success factors analysis) were computed. T-test results showed that 14 out of 44 items within this section have correlation coefficients significant at  $p\text{-value} < 0.01$ . These items are presented in Table 3.

<i>Item</i>	<i>Item description</i>	<i>Correlation coefficient</i>	<i>p-value (two-tailed)</i>
C5	<i>Managerial flexibility for organizational changes.</i>	0.396	0.004
C11	<i>Define the ERP implementation mission as a major job.</i>	0.373	0.009
C13	<i>Is there any business improvement?</i>	0.441	0.002
C16	<i>The project management quality</i>	0.406	0.004
C25	<i>Readiness and openness for organizational changes.</i>	0.449	0.001
C26	<i>The amount of users' training.</i>	0.428	0.002
C30	<i>Human Resources involvement in the implementation process.</i>	0.422	0.003
C31	<i>Minimum customization.</i>	0.367	0.009
C32	<i>To which extent new processes were discovered during the implementation.</i>	0.404	0.004
C34	<i>System alignment towards the organization.</i>	0.411	0.004
C38	<i>Solving software problems efficiently and effectively.</i>	0.495	0.000
C39	<i>Organization's personnel involvement.</i>	0.639	0.000
C42	<i>To which extent the predefined aims and objectives were achieved.</i>	0.453	0.001
C43	<i>A proven "success story" within the organization.</i>	0.631	0.000

Table 3: Correlation coefficients ( $p\text{-value} < 0.01$ ) between SFI indicator and items in the critical success factor section.

### SFI forecasting model

In order to identify the most significant questionnaire items to predict a successful implementation process, a multiple regression model based on forward selection regression procedure was utilized. The results show that item C39 (Organization personnel involvement) and item C43 (A proven "success story" within the organization) with  $R=0.763$  ( $p\text{-value}<0.001$ ) are the most significant. The prediction of SFI (PSFI), is presented in Equation 1.

$$\text{PSFI} = 2.841 + 0.201 \cdot \text{C39} + 0.155 \cdot \text{C43} \quad (1)$$

It should be noticed that the PSFI value could range between 3.189 and 4.978, when items C39 and C43 are between 1 and 6.

Inserting items C39 and C43 medians in equation 1, yielded a PSFI of 4.42.

### Discussion

Research findings reveal that two major issues are significant to ensure a successful ERP implementation. These are: a. Organization's personnel involvement; and b. A proven

"success story" within the organization. The ERP implementation program is technically very complex, has a long duration and involves many organizational units, processes and the related personnel respectively. Therefore a wide involvement of many people in the organization is essential and creates an added value to the program. Implementing an ERP system usually creates the need for organizational changes in two dimensions: technological and human behavior. Therefore, it is very important to create a confident and comfortable working environment. This may be easily supported by proven success stories within the organization.

Research findings indicate that focusing on these two issues may yield a SFI indicator of 4.978 on a 1-6 scale, which means that these two issues are very important but not sufficient.

Another important issue that this study tried to verify is whether the ERP system brand had any influence on the success level of the implementation program. No significant differences were found comparing the mean values of SFI, using the t-test for two independent samples, between the companies using SAP or ORACLE systems ( $t=1.39$ ,  $df=27$ ,  $p\text{-value}=0.175$ ). Similar statistical results show no significant differences between manufacturing or service companies ( $t=0.04$ ,  $df=48$ ,  $p\text{-value}=0.971$ ). Also, no significant differences were found while comparing the mean values of SFI, using one way ANOVA, between different types of companies ( $F(3,37)=1.33$ ,  $p\text{-value}=0.281$ ), and the number of employees ( $F(4,42)=0.46$ ,  $p\text{-value}=0.762$ ).

## Summary and conclusions

Implementing an ERP system is a major step to support productivity improvement. This study was based on a survey within 30 organizations in Israel. The majority of these organizations employ over 1000 employees. They utilize various ERP systems within the manufacturing and service industry.

The main focus of this study was to reveal the main factors that might lead to successful ERP implementation. Study findings pointed out that a. Organization's personnel involvement; and b. A proven "success story" within the organization, are the most important issues that management should see to in order to achieve a successful ERP implementation.

An interesting conclusion is the fact that: type of industry, company's size and ERP system brand were indifferent to the level of success.

## Biography

**Shai Rozenes**, P.Hd., obtained his P.Hd. in Industrial Engineering from Coventry University UK. He is involved in international research within European and international research networks. Dr. Rozenes, has published in refereed scientific journals and conferences. His research interests include project management and operations management. Dr. Rozenes is also consultant in industry.

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**Prof. Vitner** holds B.Sc. and M.Sc. degrees from the Technion Israel Institute of Technology and a Ph.D. degree in Industrial and systems engineering from USC in L.A. He was a staff member in Ben-Gurion University and after few years held senior positions in various manufacturing and service companies. Ten years ago he returned to academy where he developed a new school of engineering and acted as the school dean for 6 years. His research interests are; quality management, project management, health care management and operations management.

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## **Appendix: Questionnaire**

### **A. Organization background**

1. Organization type (SMB, domestic company, global company)
2. Countries that the organization is active in.
3. Number of employees
4. – Turnover – cancelled.
5. In which industry is the organization active?
6. Existing ERP system
7. Other ICT system in the organization
8. List of implemented modules
9. Number of licenses

### **B. Implementation success indicators (1-6 scale)**

1. Successful ERP implementation in the organization.
2. Management's usage of the system reports.
3. Usage of other computing tools (e.g., spreadsheets).
4. The project did not exceed its budget.
5. The project did not exceed its predefined time table.
6. Participants' satisfaction.
7. Customers' satisfaction.
8. Suppliers' satisfaction.
9. To which extent did the system cover the organization's functions.
10. To which extent did the system cover the organization's activities (i.e., processes).

**C. Critical factors (1-6 scale)**

1. Definition of the ERP project as top priority.
2. Management commitment.
3. Management expectations definition.
4. Clear aims and objectives.
5. Managerial flexibility for organizational changes.
6. Availability of resources and support.
7. Appointment of a principal project manager.
8. The ERP implementation team had a solid background in both business and operations.
9. Team work capabilities.
10. Well trained team.
11. Definition of the ERP implementation mission as a major job.
12. Existing business performance measures.
13. Is there any business improvement?
14. Definition of system contribution versus investment.
15. The project planning quality.
16. The project management quality.
17. Actual duration versus planned duration
18. Actual budget versus planned budget.
19. Resources cost.
20. Risk management
21. Use of a structured methodology.
22. Phased implementation.
23. Big bang implementation.

24. The organization shares common values.
25. Readiness and openness for organizational changes.
26. The amount of users' training
27. Establish a help desk.
28. Internal marketing
29. Users' satisfaction.
30. Human Resources involvement in the implementation process.
31. Minimum customization.
32. To which extent were new processes discovered during the implementation.
33. Amount of processes that the system does not support.
34. System alignment towards the organization.
35. Compatible with other ICT systems within the organization.
36. Compatible with other ICT systems outside the organization.
37. Testing the system
38. Solving the software problems efficiently and effectively.
39. Organization personnel involvement.
40. Defined aims and performance measures.
41. Well defined performance measures.
42. To which extent were the predefined aims and objectives achieved.
43. A proven "successes story" within the organization.
44. Upgrades execution.

**D. Post implementation organizational changes (1-6 scale)**

1. Did the organization structure change because of the ERP implementation?
2. Did the organization processes change because of the ERP implementation?

3. For the ERP User only – did you learn about new organizational processes?

**E. Summary (1-6 scale)**

1. Would you repeat the ERP implementation project?
2. Is there any financial improvement due to the ERP implementation project?
3. Is there any operations improvement due to the ERP implementation project?
4. Is there any suppliers' satisfaction improvement due to the ERP implementation project?
5. Is there any customers' satisfaction improvement due to the ERP implementation project?
6. ERP producer's level of service.
7. ERP implementation supplier's level of service.



**ORGANIZATIONAL AND PERSONAL ANTECEDENTS IN ADAPTATION  
OF MARKET-ORIENTATION IN THE PUBLIC SECTOR. AN EMPIRICAL  
STUDY OF LOCAL MUNICIPAL SOCIAL-WELFARE AGENCIES**

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**Abstract**

During the last decades the welfare policy has become weaker and is drifting its responsibility towards citizens into the hands of the non-profit and the private sectors. Therefore, the local welfare agencies must acquire a strategy of competitive advantage, in order to survive the fight over resources and clients (Boehm & Freund, 2007; Bennett & Sargeant, 2005). There is a resemblance between the social work discipline and the marketing concept principles; both first identify the clients' needs and willingness, and focus on target market by supplying services designed to be acceptable to and desired by those markets (Yankey, Lutz & Koury, 1986; Segal, 1991; Agarwall, Krishna & Chekitan, 2003)

This study reflects the three dimensions of Market Orientation: intelligence generation, dissemination generation and responsiveness (Kohli, Jaworski & Kumar, 1993). This study raises hypotheses of relationships between Municipal Social-Welfare Agencies and: (1) The self efficacy of social worker; (2) Their attitudes towards marketing; (3) The POF to Achievement & Innovation; (4) Organizational politics.

The research sample was comprised of 186 social workers, employed in 86 local municipal welfare agencies in Israel, randomly chosen

The collection of data was undertaken by means of a closed structured questionnaire.

The data analysis included Reliability tests, Variable descriptions, Cross tabulation and Regression.

Research results show that factors which are related to the connection between the individual to the organization, can contribute more than the personal factors. The findings indicate that using marketing demands a higher level of organizational activities than personal ones. The research results highlight the urge to take action in order to increase the factors that predict the adoption of market orientation. It is recommended to involve the management personnel and policy makers. It is also desirable that the academy put in their first priority to develop human capital of marketing in a manner that would emphasize the linkage between social work and market orientation.

**Keywords:** Market Orientation; Public sector; Management values

## Introduction

The paper examines promoting and impeding factors, on the professional and organisational levels, that explain the adoption of a market orientation in public welfare organisations. The subject is important because of the contribution of a market orientation to strengthening workers' close relations with their clients and developing services that respond to the requirements of the complex changing environment and improvement of service quality. Furthermore, during the last decades the welfare policy has become weaker and is drifting its responsibility towards citizens into the hands of the non-profit and the private sectors. Therefore, the local welfare agencies must acquire a strategy of competitive advantage, in order to survive the fight over resources and clients. Only recently, the field of social work has begun to give credence to the idea, that in order to survive, social services must draw on business concepts and methods (Boehm & Freund, 2007; Bennett & Sargeant, 2005).

The marketing concept plays a main role in the business concept (Kotler, 2005). Hence, there is a resemblance between the social work discipline and the marketing concept principles; both first identify the clients' needs and willingness, and then attract them, retain them and respond to their needs. Both focus on target market by supplying services designed to be acceptable to and desired by those markets, avoiding redundancy or money wasting (Yankey, Lutz & Koury, 1986; Segal, 1991; Agarwall, Krishna & Chekitan, 2003). The resemblance between Social Work and Marketing emphasizes the importance of adopting market orientation in the local municipal social-welfare agencies (Segal, 1991).

The research is based on a structured questionnaire administered to 186 employees in 86 welfare organisations in Israel. Three dimensions of market orientation were examined: intelligence generation, intelligence dissemination, and responsiveness. This study identifies factors that may promote the adoption of market orientation in the Municipal Social-Welfare Agencies. Literature has defined some personality and organizational factors, which are being tested in this research: Self efficacy; the perception of marketing as part of the profession; Person-Organization fit to NPM values: Achievement & Innovation; Organizational politics.

The findings indicate that workers' and organisations' attitudes to innovation; perceived organisational politics; and the perception of marketing as part of the profession promote or impede a market orientation and significantly contribute to explanation of the antecedents of a market orientation.

## Theory, model, and hypotheses

### Market Orientation

Market orientation is an essential contrast of healthy business firms competing in highly demanding and sophisticated modern economies (Shoham, Ruvio, Vigoda-Gadot & Scwabsky, 2006).

Researchers agree that the market orientation is the way organizations manage all their multiple stake-holders and examines the extent to which firms behave or are inclined to behave, in accordance with the marketing concept. (Cervera, et. al., 2001; Liao, et. al., 2001; Ormond, 2005). Hence market orientation has been conceptualized from both cultural (Narver & Slater, 1990) and behavioural perspectives (Kohly, Jaworski & Kumar, 1993). In this study, The behavioral approach was examined. It concentrates on organizational activities which are directed by the managers of the organization. These activities are related to the generation of market information, cross-departmental dissemination to information and responsiveness to disseminated information. This approach is appropriate for implementing the development of public services (Wood, 2008), which cope with ever-diminishing resources and sources of funding, as well as increasing competition (Mayntz, 2006), the need for streamlining and innovation (Kaplan & Haenlein, 2009), and the aim of developing services that are accessible to clients and adapted to their changing needs (Clarke, 2006). It also enables quantitative, measurable evaluation of performance.

### Antecedents of market-orientation in the municipal social-welfare agencies

#### Self efficacy

Self-efficacy is a process of evaluation, judgement, and control that determines how people think, feel, and act, and contributes significantly to their motivation and achievement. Self-efficacy is defined as a system of beliefs according to which people judge their ability to plan and implement different actions successfully (Bandura, 1982; Chen, Gully, & Eden, 2001).

There has also been criticism of the inaccuracy of measurement (Locke & Latham, 1990).Based on this criticism; Bandura (1997) suggested a distinction between general and specific self-efficacy, which is related to tasks in defined situations and fields. With regard to marketing, high self-efficacy with regard to marketing has been shown to contribute to successful handling of complex tasks required in collecting information and persistence in marketing efforts aimed at improving service (Hu, Huhman, & Hyman, 2007; Strebel, Erdem, & Swait, 2004). According to this approach, employees who are confident in their ability to engage in this field will take action to adopt a market approach without barriers. Accordingly, the second hypothesis is:

**Hypothesis:** A positive correlation will be found between the social workers' specific self-efficacy (in marketing) and their market orientation.

### **The perception of marketing as part of the profession**

Perceptions of marketing as part of the Social Workers' profession rely on the fit between the marketing concepts and activities and the vision and aims of social work. Marketing will be perceived as a professional activity, based on knowledge, goals setting, strategy and assessment (Boehm, 2006). Since there's no study found on this subject, the definition is based on a study that assesses attitudes of social workers towards fundraising as a professional activity. Despite the growing recognition of marketing in recent years (Boehm & Freund, 2007; Escoffier, 2007) and its presentation as an effective means for coping with complex changing environment (Ewing & Napoli, 2005), the adoption of the marketing as part of the social work profession can not be taken for granted. Research over the correlation between market orientation and workers in the public sector found that workers have negative perceptions on marketing (Andreasen & Kotler, 2003, which is a result of the gap between the values that stand in the core of the public sector and those of the for-profit sector (Buurma, 2001; Walsh, 1994; Gainer & Padanyi, 2005).

Regarding social workers, marketing may threaten social workers, as many of them perceive their professional role primarily as caregivers (Boehm, 2006; Dearling et al., 1995), and not as 'marketing people' requiring a managerial approach.

Although the resemblance between social work and the marketing concept (Segal, 1991), those who criticize the marketing concept claim, that it may the welfare agencies to aggressive profitable services Furthermore, and it may raise ethical dilemmas (Boehm, 1998).

**Hypothesis 2:** A positive correlation will be found between the social workers' perception of marketing activities as part of their profession and their adoption of a market orientation.

### **Person-Organization fit of New Public Management Values**

The new public management values were developed in response to a demand for the supply of more efficient and effective public services, requiring public organisations to strengthen patterns that achieve results and set standards for evaluating performance, competitiveness, understanding of customers, accountability, initiative, transparency, innovation, and achievement orientation (Hood, 1991; Meiri & Vigoda-Gadot, 2008). In the present research we concentrate on innovation and achievement orientation, based on their relevance to the research subject. This study focuses on two NMP values, Achievement and Innovation:

#### **Achievement**

Achievement is the will to advance and succeed in one's career, to exert oneself in order to gain new qualifications, to expand his responsibilities and to promote his organization's goals (Judge & Bretz, 1992). An achievement-oriented person is described as an energetic one, who leads, plans and works by goals and aims. (Ansari, Baumgartel & Sullivan, 1992).

An achievement-oriented organization should benefit its workers by their outputs, in order to develop varied ways to achieve its goals and to raise the workers' sense of achievement (Osborne & Gaebler, 1992).

### **Innovation**

Innovation is where new ideas, goals and processes are being created or developed (Rogers, 1995). Innovation is a successful implementation of creative ideas which creates organization competitive advantage (Miron, Erez & Naveh, 2004), helps to respond quickly to the clients' and environmental demands (Osborne & Gaebler, 1992; West & Anderson, 1996; Janssen, Van De Vliert & West, 2004).

### **Person-Organization Fit**

Research conducted since the early 1980s emphasizes the fit between the employee and the organisation as essential (Hernes, 2005) to increasing the effect of marketing and the organisational image. Chatman (1989) defines person-organisation fit as the degree of overlap between organisational and personal values, based on two components: (a) the personality of the employee, and (b) the organisational culture. Fit contributes to the creation of a work environment in which employees and decision makers share the same goals for the good of the organisation (Cunningham, 2000). It also contributes to employee satisfaction and better performance (Bretz & Judge, 1994). When there is fit between the individual and the system regarding the approach to innovation and achievement orientation there are greater chances of collective organisational support for this approach, making marketing a priority and allocating more resources for it. According, the third hypothesis is:

**Hypothesis 3:** A positive correlation will be found between person-organisation fit in terms of the values of achievement-orientation and innovation and the adoption of a market orientation.

### **Organizational Politics**

Political behaviour is related to aspects of power and influence and reflects the ability of people to affect what happens (Salancik & Pfeffer, 1977). In organisations with a high degree of organisational politics, the members of the organisation exploit the centres of power in the organisation in order to promote policies and plans that they see as desirable, in order to promote personal interests, often in contradiction to the goals of the organisation itself (Ferris, Russ, & Fandt, 1989; Vigoda-Gadot & Kapun, 2005). Such organisations operate less according to professional, technical, or scientific considerations, and more on the basis of considerations of control and power (Gummer, 1990).

Employees perceive a high degree of organisational politics as contrary to the values of justice and fairness in the division of resources and appropriate rewards for effort.

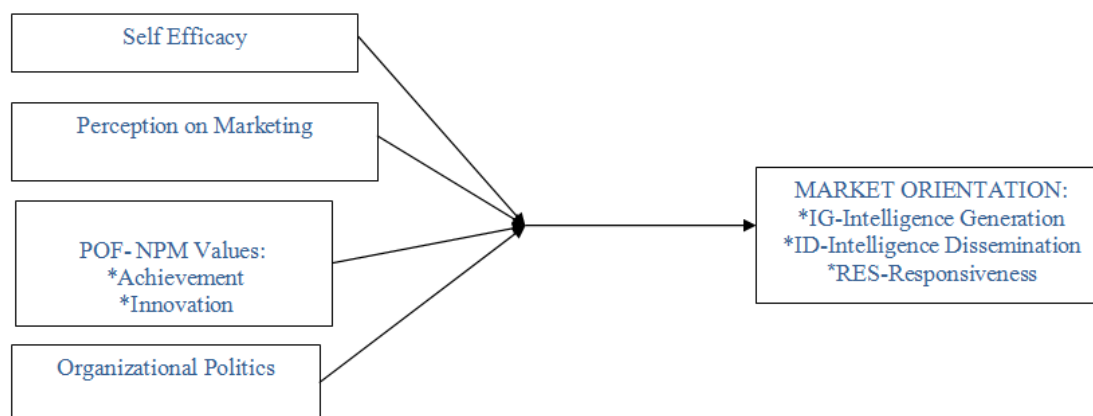
Ambiguity in setting an organisation's aims and goals and how they should be implemented, which often characterizes public organisations (Peters & Pierre, 1998), may

contribute to the development of organisational politics (Pfeffer, 1992). Furthermore, the close relationship between public organisations (including welfare organisations) and political and government systems is likely to impart the values and norms of the political environment to the organisation (Gummer, 1990; Peterson, 1990). Employees who focus on organisational politics are therefore likely to invest effort in locating and influencing the centres of power and less on finding information that is relevant to the organisation's customers, disseminating it, and developing services accordingly. This gives rise to the fourth hypothesis:

**Hypothesis 4:** A negative correlation will be found between the social workers' perception of organisational politics and the adoption of a market orientation.

### Model

The meaning and importance of market orientation has been studied extensively in the business sector (Kohli & Jaworski; Narver & Slater, 1990), but it is relatively new concept for the nonprofit and public sector. The model suggested in this research intends to explain the relationship between the antecedents of market-orientation and the tendency to adopt market orientation in the municipal social-welfare agencies. These factors are conceptualized from two levels: the personality level and the organizational level and include: Self efficacy, Perceptions on marketing as a part of the Social Workers' professional activities, person-organization fit of achievement and innovation, and organizational politics.



### Sample

The research sample was comprised of social workers and their managers, employed in the municipal social-welfare agencies in Israel. The participants were selected randomly from a list of municipal social-welfare agencies in the northern and central regions of Israel. 86 agencies were randomly chosen, 210 questionnaires were given and 186 questionnaires were returned.

The majority of participants were born in Israel (84.4%) and most were women (83.2%). The average age of the participants was 42 years. Slightly more than half of the participants held bachelor's degrees (51.6%) (In Israel it is customary for social workers to begin working with a bachelor's degree), and the others held master's degrees (43.5%) or doctorates (0.5%). Most of the participants were employed by municipalities (67.2%) and the others worked for regional and local councils (in rural areas) (32.8%). The majority were rank-and-file social workers (71.1%) and the rest were employed at different levels of management (team leaders, service directors, or organisation directors) (28.9%). The participants were divided between macro positions (management and community work) (53.7%), and clinical work (46.3%).

### **Research tools:**

The responders were asked to score their answers on a 5 point scale from 1 (do not agree) to 5 (strongly agree) according to the following items:

*Market orientation:* Based on the "Markor" scale (Kohli, Jaworski & Kumar, 1993), adapted from business to public organisations by Caruana, Ramaseshan & Ewing (1999). A scale of 20 items was used examine the implementation of three components of market orientation: (a) 6 items for intelligence generation ( $\alpha = 0.70$ ); (b) 5 items for intelligence dissemination ( $\alpha = 0.76$ ); and (c) 9 items for responsiveness ( $\alpha = 0.85$ ). (General measure  $\alpha = 0.90$ ).

*Self efficacy:* following the scale suggested by Boehm (2006) a scale of 7 items was used ( $\alpha = 0.85$ ).

*The perception of marketing as part of the profession:* following the scale suggested by Boehm (2006) a scale of 6 items was used and transformed from attitudes towards fund-raising to attitudes towards marketing ( $\alpha = 0.79$ ).

*POF of NPM values: Achievement & Innovation:* following the scale suggested by Meiri & Vigoda-Gadot (2007) a scale of 28 items was used (Innovation:  $\alpha = 0.93$  for organization;  $\alpha = 0.88$  for workers; Achievement:  $\alpha = 0.79$  for organisation;  $\alpha = 0.77$  for workers).

*Organizational politics:* following the scale suggested by Vigoda-Gadot & Kapun (2005) a scale of 9 items were used ( $\alpha = 0.82$ ).

### **Findings**

The findings indicate that of all the dependent and independent variables, the intelligence generation, was found to be relatively low (0.60).

9	8	7	6	5	4	3	2	1	SD	Mean	$\alpha$	Variables
								1	0.71	3.48	0.60	Intelligence Generation
							1	0.61**	0.86	2.90	0.68	Intelligence Dissemination
						1	0.64**	0.61**	0.53	3.41	0.83	Responsiveness
							*	*				
				1	0.22**	0.21**	0.26**	0.11	0.79	3.64	0.83	Overall market orientation
					*	*	*	*				
			1	0.46**	0.24**	0.24**	0.24**	0.15**	0.64	3.93	0.79	Market perception
				*	*	*	*	*				
		1	0.06	0.00	-	-	-	-	0.69	0.75		P-O fit - innovation
					0.52**	0.46**	0.43**	0.46**				
					*	*	*	*				
	1	0.41**	0.17*	0.01	-0.23**	-	-	-0.07	1.00	1.92		P-O fit - achievement
		*			0.22**	0.28**	*	*				
1	0.42**	0.42**	-0.08	-	-	-	-	-	0.67	2.92	0.79	Organisational politics
	*	*		0.12**	0.47**	0.51**	0.34**	0.32**				
					*	*	*	*				

$N = 186$  \* $p < 0.05$  \*\* $p < 0.01$ ; \*\*\* $p < 0.001$

Table 1: Reliability, Means, Standard Deviation and Pearson Correlations of All Variables



<i>Overall market orientation</i>	<i>Responsiveness</i>	<i>Intelligence dissemination</i>	<i>Intelligence generation</i>	<i>Variables</i>
$\beta$ (t)	$\beta$ (t)	$\beta$ (t)	$\beta$ (t)	
0.056	0.072	0.024	0.037	<i>Gender</i>
(0.864)	(1.099)	(0.350)	(0.521)	
0.033	0.082	-0.061	0.041	<i>Age</i>
(0.510)	(1.229)	(-0.880)	(0.584)	
0.078	0.025	0.095	0.106	<i>Agency</i>
(1.164)	(0.360)	(1.333)	(1.457)	
-0.026	0.075	-0.151	-0.033	<i>Occupation</i>
(-0.359)	(1.015)	(-1.962)	(-0.421)	
.095	.076	.11	.077	<i>R<sup>2</sup> change</i>
3.97**	3.12*	4.68**	3.12*	<i>F</i>
0.031	0.039	0.027	0.008	<i>Self efficacy</i>
(0.403)	(0.488)	(0.329)	(0.092)	
0.214**	0.205**	0.238**	0.119	<i>Mark. perception</i>
(2.899)	(2.713)	(3.020)	(1.475)	
.051	.054	.04	.023	<i>R<sup>2</sup> change</i>
4.41*	4.64*	3.55*	1.90	<i>F</i>
-0.294***	-0.373***	-0.134	-0.219**	<i>Organisational politics</i>
(-3.896)	(-4.824)	(-1.655)	(-2.660)	
0.076	0.068	-0.086	0.215**	<i>P-O fit – achievement</i>
(1.037)	(0.913)	(-1.099)	(2.685)	
-0.413***	-0.318***	-0.355***	-0.422***	<i>P-O fit – innovation</i>
(-5.614)	(-4.229)	(-4.518)	(-5.270)	
.28	.26	.19	.22	<i>R<sup>2</sup> change</i>
23.26***	21.18***	13.82***	15.28***	<i>F</i>
0.422	0.394	0.339	0.316	<i>R<sup>2</sup></i>
0.276	0.264	0.188	0.216	$\Delta R^2$
0.386	0.357	0.298	0.274	
23.258***	21.182***	13.823***	15.282***	<i>Adjusted R<sup>2</sup></i>
11.841***	10.555***	8.303***	7.446***	<i>F for <math>\Delta R^2</math></i>
				<i>F</i>

N=186; \*,  $p < 0.05$  \*\*  $p < 0.01$ ; \*\*\*  $p < 0.001$

Table 2: Regression Analyses: Predicting Market Orientation of Social Workers

In order to examine the relative contribution of the different independent variables to different components of market orientation, three hierarchical regression analyses were performed for each of the orientation variables and another analysis was conducted on the variable of overall market orientation. The regression model included three blocks: background information (gender, age, type of organisation – municipality or local council), and the job fulfilled by the social work (macro or clinical – manager or community worker;

individual worker), personal-professional variables (perception of marketing as part of the profession and self-efficacy). The inclusive models (with all three blocks) were found to be significant and explain a relatively high percentage of overall market orientation (42%), responsiveness (39%), intelligence dissemination (34%), and intelligence generation (32%).

<i>Variable</i>	<i>Findings</i>
<i>Self efficacy</i>	<i>No correlation was found</i>
<i>perception of marketing as part of the social workers' profession</i>	<i>A positive correlation was found between the perception of marketing as part of the social work profession and intelligence dissemination (<math>\beta = 0.238</math>; <math>p \leq 0.01</math>), responsiveness (<math>\beta = 0.205</math>; <math>p \leq 0.01</math>), and overall market orientation (<math>\beta = 0.214</math>; <math>p \leq 0.001</math>). In other words, the more the social workers perceived involvement in marketing as part of their profession, the more they adopted a market orientation in terms of the components of intelligence dissemination and responsiveness</i>
<i>Person-Organization Fit of NPM value - Innovation</i>	<i>Negative correlations between person–organisation fit regarding innovation and intelligence generation (<math>\beta = -0.422</math>; <math>p \leq 0.001</math>), intelligence dissemination (<math>\beta = -0.355</math>; <math>p \leq 0.001</math>), responsiveness (<math>\beta = -0.318</math>; <math>p \leq 0.001</math>), and overall market orientation (<math>\beta = -0.413</math>; <math>p \leq 0.001</math>) Where found. These indicate that the higher the person–organisation fit regarding innovation, the greater the adoption of market orientation, in terms of all its components.</i>
<i>Person-Organization Fit of NPM value - Achievement</i>	<i>A positive correlation was found between person–organisation fit regarding achievement and intelligence generation (<math>\beta = 0.215</math>; <math>p \leq 0.01</math>). In other words, contrary to expectations, the greater the disparity between employees and the organisation regarding achievement, the more intelligence generation by the workers</i>
<i>Organizational politics</i>	<i>A negative correlation was found between the perception of organizational politics and intelligence generation (<math>\beta = -0.219</math>; <math>p \leq 0.01</math>), responsiveness (<math>\beta = -0.373</math>; <math>p \leq 0.001</math>), and overall market orientation (<math>\beta = -0.294</math>; <math>p \leq 0.001</math>). The less organizational politics perceived by the employees, the greater their adoption of market orientation in terms of the components of intelligence generation and responsiveness</i>

Table 3: Summery of the findings

## Discussion

The purpose of the research was to identify factors that promote the adoption of a market orientation among employees of municipal welfare organizations. It is important to identify factors that encourage the involvement of welfare employees in aspects of market orientation because of the need to provide services that fit the needs and desires of the clients, to ensure that the organizations supply responses that are appropriate for complex changing

environments, to improve the image and quality of the welfare services, and to operate effectively in a competitive environment.

Research results show that factors which are related to the connection between the individual to the organization, as the person-organization fit to the innovation value and perception organizational politics are dominant. Apparently, the dominance of the organizational factors can be explained by the nature of the marketing activity, which requires action on the macro-organizational level (Kara, et al., 2004; Voss & Voss, 2000). Regarding the results of Organizational politics it appears that social workers view a high degree of organizational politics as undesirable. The investment of effort in marketing depends, then, upon the resources that employees are willing to expend if they have a reasonable change of obtaining fair rewards. The results related to the perception of marketing as a part of the profession can be explained by the resistance to adopting marketing activity among employees who consider marketing techniques as foreign, imported from the business world, and conflicting with the activities and values of the profession (Abramovitz, 2005; Baines, 2008), because it does not significantly contribute to the explanation of intelligence generation. On the other hand, Findings on specific self-efficacy in the field of marketing, does not significantly contribute to the explanation of any of the antecedents of the market orientation. These findings contradict the cognitive-social theory, which defines self-efficacy as influencing workers' decisions about their degree of involvement in activities (Burr & Cordery, 2001), and are also inconsistent with previous research findings that correlate self-efficacy with performing complex tasks (Boehm, 2006; Hu et al., 2007). It emerges that the value-based perception regarding the issue of marketing (perception of marketing as part of the profession) has greater impact – promoting or impeding – the adoption of a market orientation than self-efficacy regarding this issue does.

### **Limitations**

- The sample used did not investigate other professional groups. It would be useful to expand the research to other organisations and populations.
- The research was conducted in Israel, and should be expanded to other countries
- The research did not directly examine the contribution of the managerial ranks.

### **Summary and Conclusions**

The research findings indicate the dominance of the organisational level in explaining variance of market orientation among welfare employees.

The findings indicate that using marketing demands a higher level of organizational activities than personal ones. The research results highlight the urge to take action in order to increase the factors that predict the adoption of market orientation. Therefore, it is recommended to involve the management personnel and policy makers, as the ministry of welfare who are responsible for the policies related to the activities taken by social workers at

the welfare agencies. The research findings also indicate a need to develop organizational systems based to a greater extent on rational processes of consideration, evaluation, and findings optimal means, and less on political processes based on power relations and personal interests in the decision-making process (Vigoda-Gadot & Drory, 2006). Organisation managers can contribute considerably to shaping organisational structure and culture (McAleese & Hargie, 2004). It is therefore advisable to encourage organisation managers to undertake a leadership role and set a personal example in adopting the different components of market orientation.

In addition, the research results focus on the attitudes of the social worker towards marketing as a part of the social workers' professional activities variable as an efficient factor that increases the adoption of market orientation by social worker. Since this factor is an acquired value, it is desirable that the academy put in their first priority to develop human capital to the subject of marketing early on in the first stages of academic education, in a manner that would emphasize the linkage between social work and market orientation.

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## DISTRIBUTION NETWORK RELATIONS IN CHEMICAL INDUSTRY

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### Abstract

The paper aims to investigate the process of establishing distribution network. The paper takes network paradigm (Achrol, 1997; IMP Group, 1982; Rumyantseva, Tretyak, 2003) as a main basis of investigation looking at the development of distribution networks in Russian chemical industry.

Recently Business to Business distribution has been undergoing a process of significant evolution (Gadde, 2000; Gadde, Snehota, 2001; Frauendorf et al, 2007; Tretyak, Sheresheva, 2005; Vaskin, 2008). Formerly distributor was mainly considered as a passive collector of orders. Now distributor is more and more considered as an agent having the core position in the supply chain. Its activity is crucial for establishing relations with numerous agents: transport companies, finance organizations, custom brokers etc. The interconnection of firms' activities generates, and is increased by, interconnected relationships that outline the network approach within the supply chain (Cantu et al, 2009).

We aim to look at the process of distribution network creation using the mathematical tool of Markov's chain theory.

Firstly, we will give a brief overview of relevant theory. Secondly, we will describe situation in chemical industry in Russia. Focusing on the question of the current structures of distribution chains, we aim to identify the main features of distribution models of each type.

We aim to describe the process of choosing a partner from the set of homogenous agents providing similar goods or services for distributor (product, credit, transport, storehouse, etc.). There are two options for actors:

- opportunistic behavior, where the choice of partner is driven solely by the price offer and
- networking behavior, where choice of partner is based on well-established supplier-distributor relationships.

Finally, using empirical data we will make up matrix of agent behavior using time-homogeneous Markov chains. These matrix aims to describe possible variants of agent



during the process of choosing. The empirical section of the paper is based on the analysis of distribution networks in Russian chemical industry.

**Keywords:** distribution networks; relationships; transaction costs; Russia

## Literature review

The paper takes network paradigm as a main basis of investigation looking at the development of distribution networks in Russia. In line with this tradition, interaction between companies in industrial markets is seen from a relationship perspective (Håkansson and Snehota 1995), where relationship was defined as “mutually oriented interaction between two reciprocally committed parties”. Over the past two decades, the literature has increasingly moved to consider inter-firm networks as an efficient form of organizing business activities. Network approaches vary significantly being numerous and diverse but having all together formed foundation for the development of a new paradigm (Rumyantseva and Tretyak, 2003).

There is a number of features in Russian economy, determining potential differences in developing distribution network, among them higher instability of relationships in the market, lack of information about potential partners due to short-term history of market economy, low information disclosure readiness, higher readiness for opportunistic behavior and higher time pressure (Ford et al, 2006, Johanson 2007, Halinen, Salmi, 1996). Russia as an economy in transition provides a unique opportunity to investigate changing and adapting network structures, stakeholder interaction and relationship constellations (Smirnova et al., 2009). The development of business relationships was the subject of cultural analysis and attempts to find a “specific Russian way” to relationship building (e.g. Davis, Patterson, and Grazin, 1994). Some studies exist which analyze the nature of these new relationships, building on frameworks within a market economy (e.g. Johanson, 2007; Smirnova, Kousch, 2007; Tretyak, Sheresheva, 2005).

Weber (Weber J.A., 2001) was quite right to admit that resource sharing in distribution serves as foundation for building sustainable competitive advantage, due to the increase of resource body available to the company and increase of flexibility.

Distribution in Russia is characterized by some trends including shift in distribution channels' structure, cutting number of distributors in many industries, internalization of distribution networks, and growing role of information infrastructure (Sheresheva, 2005).

## Theoretical foundation

Formally, a Markov chain is a discrete random process with the Markov property. A discrete random process means a system which can be in various states, and which changes randomly in discrete steps. It can be helpful to think of the system as evolving through discrete steps in time, although strictly speaking the "step" may have nothing to do with time. The Markov property states that the probability distribution for the system at the next step

(and in fact at all future steps) only depends on the current state of the system, and not additionally on the state of the system at previous steps. Since the system changes randomly, it is generally impossible to predict the exact state of the system in the future. However, the statistical properties of the system at a great many steps in the future can often be described. In some applications these statistical properties are important.

The changes of state of the system are called transitions, and the probabilities associated with various state-changes are called transition probabilities.

### Formal definition

A Markov chain is a sequence of random variables  $X_1, X_2, X_3, \dots$  with the Markov property, namely that, given the present state, the future and past states are independent. Formally,

$$\Pr(X_{n+1} = x | X_1 = x_1, X_2 = x_2, \dots, X_n = x_n) = \Pr(X_{n+1} = x | X_n = x_n).$$

The possible values of  $X_i$  form a countable set  $S$  called the state space of the chain.

Markov chains are often described by a directed graph, where the edges are labeled by the probabilities of going from one state to the other states.

### Variations

- Continuous-time Markov processes have a continuous index.
- Time-homogeneous Markov chains (or stationary Markov chains) are processes where

$$\Pr(X_{n+1} = x | X_n = y) = \Pr(X_n = x | X_{n-1} = y)$$

for all  $n$ . The probability of the transition is independent of  $n$ .

- A Markov chain of order  $m$  (or a Markov chain with memory  $m$ ) where  $m$  is finite, is a process satisfying

$$\begin{aligned} & \Pr(X_n = x_n | X_{n-1} = x_{n-1}, X_{n-2} = x_{n-2}, \dots, X_1 = x_1) \\ &= \Pr(X_n = x_n | X_{n-1} = x_{n-1}, X_{n-2} = x_{n-2}, \dots, X_{n-m} = x_{n-m}) \text{ for } n > m \end{aligned}$$

In other words, the future state depends on the past  $m$  states. It is possible to construct a chain  $(Y_n)$  from  $(X_n)$  which has the 'classical' Markov property as follows:

Let  $Y_n = (X_n, X_{n-1}, \dots, X_{n-m+1})$ , the ordered  $m$ -tuple of  $X$  values. Then  $Y_n$  is a Markov chain with state space  $S_m$  and has the classical Markov property.

An additive Markov chain of order  $m$  where  $m$  is finite, is where

$$\Pr(X_n = x_n | X_{n-1} = x_{n-1}, X_{n-2} = x_{n-2}, \dots, X_1 = x_1) = \sum_{r=1}^m f(x_n, x_{n-r}, r)$$

### Markov chains

The probability of going from state  $i$  to state  $j$  in  $n$  time steps is

$$p_{ij}^{(n)} = \Pr(X_n = j \mid X_0 = i)$$

and the single-step transition is

$$p_{ij} = \Pr(X_1 = j \mid X_0 = i).$$

For a time-homogeneous Markov chain:

$$p_{ij}^{(n)} = \Pr(X_{n+k} = j \mid X_k = i)$$

And

$$p_{ij} = \Pr(X_{k+1} = j \mid X_k = i).$$

so, the n-step transition satisfies the Chapman–Kolmogorov equation, that for any k such that  $0 < k < n$ ,

$$p_{ij}^{(n)} = \sum_{r \in S} p_{ir}^{(k)} p_{rj}^{(n-k)}$$

where S is the state space of the Markov chain.

The marginal distribution  $\Pr(X_n = x)$  is the distribution over states at time n. The initial distribution is  $\Pr(X_0 = x)$ . The evolution of the process through one time step is described by

$$\Pr(X_n = j) = \sum_{r \in S} p_{rj} \Pr(X_{n-1} = r) = \sum_{r \in S} p_{rj}^{(n)} \Pr(X_0 = r).$$

Note: The superscript (n) is an index and not an exponent. (Sokolov, Chistykhova, 2005).

## Market situation

There are three main stages of distribution channel formation in Russia which correlate with the drastic changes in economic and social environment. Distribution chains in the USSR were hierarchical structures strictly managed by government under conditions of non-market economy. Over the post-Soviet decades, the Russian market has undergone numerous changes, with distribution chains being at first badly destroyed. During the first post-Soviet decade demand exceeded supply in almost all segments of Russian market. In the highly uncertain and unstable political and economic environment, long-term relations were almost impossible. A lot of “fly-by-night companies” established in 1990s purchased and distributed goods without any commitment. The 1998 default led to decreased number of international trade contacts and impressive slump of import. Still, during the next decade the basic economic infrastructure had been formed and then distribution chains restored step by step at a new voluntary basis. Due to ICT intensively spread in Moscow and then in other regions of Russia, building of inter-firm networks became less costly, and a number of sustainable distribution networks started to grow. It is precisely this last decade developments that will be the main focus of our research based on the data on chemical distribution channels of western part of Russian Federation.

The chosen market segment is polymerized vinyl chloride (PVC) market. Traditionally this market includes three main groups of raw materials for PVC production:

- 1) PVC resins – the basic component;
- 2) PVC plasticizer – which is added to the resins in order to get necessary viscosity of plastic mass (such as DOP, DINP);
- 3) Additives – which are added to the plastic mass to improve the production process and for giving necessary properties to manufactured goods. This group includes thermo stabilizers, lubricants, flame retardants, coloring agents, etc.

PVC market in Russia had an impressive dynamics during the decade having grown 2.4 times in years 2000-2007. In 2008-2009 the dynamics became slower due to crisis but some companies including Ruskhimset still managed further growth. In 2009 there was a remarkable reduction of PVC consumption in Russia. In the first half of the year the consumption of PVC was 40 % in comparison with 2008. In summer 2009 the highest prices were fixed due to unprecedented deficit; PVC prices increase in January- June 2009 was about 48,5 %. So, the market has obtained seasonality in the last years. It is also important to mention a 27 % increase of PVC price in Europe and that of 14,8 % in Asia.

Average price for domestic PVC resin remained at the level of 1.05 euro while the price for import PVC resin did not exceed 0.7 – 1 euro per kg on the terms Ex Works storehouse in Europe.

The Russian domestic market volume is estimated by 974.4 thousand tons in 2008. About a half of this amount (578.6 thousand tones) counts for domestic production, the rest was imported.

Russian government takes measures protecting local producers in spite of the fact that domestic production capacities are unable to satisfy demand for PVC raw materials. The custom duty for PVC resin is 15 %, and in October 2009 the additional euro compound was brought in (0,12 euro per Kg).

Volatility of prices and inability of production capacities to supply the demand by domestic raw product are the main difficulties facing Russian market of PVC products.

There are numerous actors at the market, including large producers, small trade companies and a lot of consumers. The range of PVC products is rapidly increasing. As a result, it is very difficult to reach any consensus within the PVC market community. Under these circumstances networking may be crucial for obtaining stability and predictability of the market.

### **Characteristics of «Ruskhimset» company**

The first step of the empirical study draws on the case method (Eisenhardt & Graebner 2007; Flyvbjerg 2006). As a matter of fact, single case often provides better theoretical insights

than multiple-case research based on creating good constructs (Dyer and Wilkins, 1991). The case study approach implies the detailed examination of a single example of a class of phenomena.

The Joint Stock Company Russian Chemical Net or «Ruskhimset» chosen for the case study started its operations in 2000. The company provides the following services: delivery, information support, storage, etc. Its annual turnover is now more than 50 million USD. There is about 30 employees in Moscow office and about 100 in regional representative offices. The main goal is to provide wide range of chemicals for small and medium producers which are the target market of the company.

Considering huge territory of Russian Federation, there is a need for establishing regional infrastructure. JSC «Ruskhimset» has sales representative offices and specialized warehouses in a number of regions including Moscow, Saint-Petersburg, Tambov, Volgograd, Kazan, Yekaterinburg, Yaroslavl, Ivanovo, Rostov-on-Don, Perm, Minsk (Belarus). JSC «Ruskhimset» is obviously using network distribution principles in its operations.

In order to understand the structure of value creation chain of «Ruskhimset» we aim to analyze the actors of network: 1) Suppliers (Domestic, External suppliers); 2) Transport companies (Internal, International); 3) Financial agents (Banks, Insurance agents); 4) Distribution network of representations.

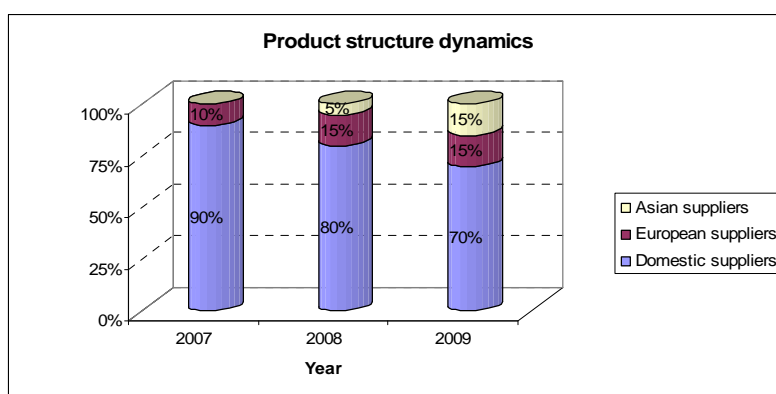
The starting point of analysis is to construct graphs of distribution channels. As a matter of fact, actors of channels have their own goals, producers being keen on promoting the product and expanding geographically, transport companies being interested in stable volume of cargo, consumers seeking for the best quality for less money, etc. Still, every actor is interested in gaining sustainable competitiveness and profit. Building the network and interact on the long-range basis is a way to raise their ability to create value and thus benefit from their position in the network.

Distribution chain of PVC chemicals we describe in terms of five essential networking principles include establishing a clear purpose and creating communication links (Stamps, Lipnack, 1994).

«Ruskhimset» had established relationships with suppliers from all over the world. Actually, there are three types of supply chains managed by it:

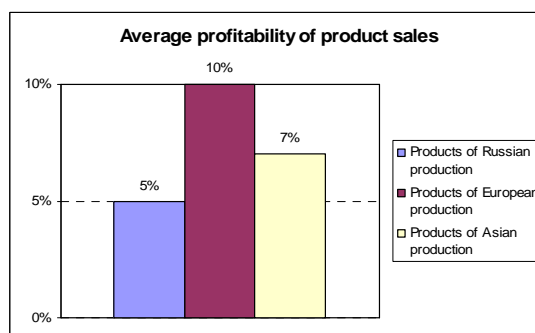
- 1) Russian – purchasing of goods from domestic producers.
- 2) European - purchasing of goods from the European suppliers: Germany, Hungary, Italy, Switzerland, Belgium, Holland and including USA.
- 3) Asian - purchasing of goods of Asian origin: China, Taiwan, South Korea, and India.

From these suppliers company forms its product range. This picture shows preliminary dynamic of product range structure. We can see annual increase of import goods share.



We suppose that this increase is stimulated by higher profitability of import goods. Probably it is connected with the fact that few companies have got enough financial and human intellectual recourse to start international relations.

So these facts let to increase profit-earnings. The picture below shows average profitability of sales.



Further in the research paper we will describe relations of «Ruskhimset» using ARA model. We will view at distribution through the relationships between the involved companies.

Each type has got its own specific. We aim to analyze these relationships describing resources, interaction parties, interaction process and activities.

### **Distribution on the domestic market**

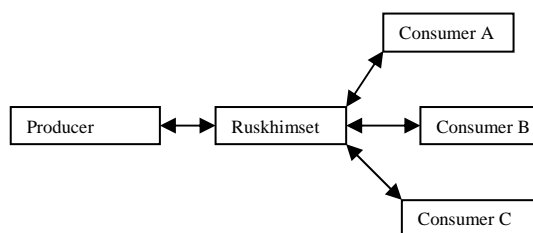
Initially in 2000 year «Ruskhimset» started its business with domestic producers. So first of all we are going to describe a supply chain between domestic market actors.

The majority of domestic suppliers have got common characteristic as following. It is a factory which was built in the times of Soviet Union. The quality of the goods is rather poor

due to the outdated equipment and low tech technologies. Obsolete facilities lead to the regular suspension of production and increase risk of phase out.

The competitive advantage is reached by the lower price. As we mentioned before government protect local producers by regulation of import duties. On the one hand government protection measures let factories to survive on the other hand its do not stimulate innovations and development.

Factories are not interested in promotion of goods. The main concern of managers is production, but not logistics or marketing. Products are sold on the Ex Works terms. The graph of distribution channel is as follows:



Producer is interested in relations with distributor, which purchase goods in bulk and guarantee payment in time. Distributor organizes transportation using its own transport facilities or service of carrier for delivery goods to the warehouse in Moscow region.

The chain can be even shorter if factory ships the goods directly to the final consumer.

Let's illustrate these relations on the certain example. Roshalskiy factory of plasticizers is one of the main partners of «Ruskhimset». Factory was established in 1960s for production of plasticizer - dioctyl phthalate (DOF). Now the factory is owned by private person.

In 2000 «Ruskhimset» started to work with this factory as distributor. Since «Ruskhimset» had complementary skills and competences the cooperation was acknowledged as mutually beneficial.

There is strong social interaction between companies now.

There are monthly agreements on schedule of delivery and price. While negotiating the factory captures dominant position being not at all flexible. It aims to dictate prices, volumes, and terms of delivery. Still, well established social contacts between staff of both companies always help to come to the mutually beneficial agreement. So, the channel is stable under turbulent environment and hard economic conditions mostly due to extensive social interaction.

The relationship between partners faced a serious challenge: Roshalskiy factory of plasticizers ceased the production for several months due to Energy Company refused to

provide energy (as a matter of fact, the factory had at the time a huge debt). In order to fill in the gap «Ruskhimset» had to diversify suppliers, and the additional supply from European companies was considered a best decision.

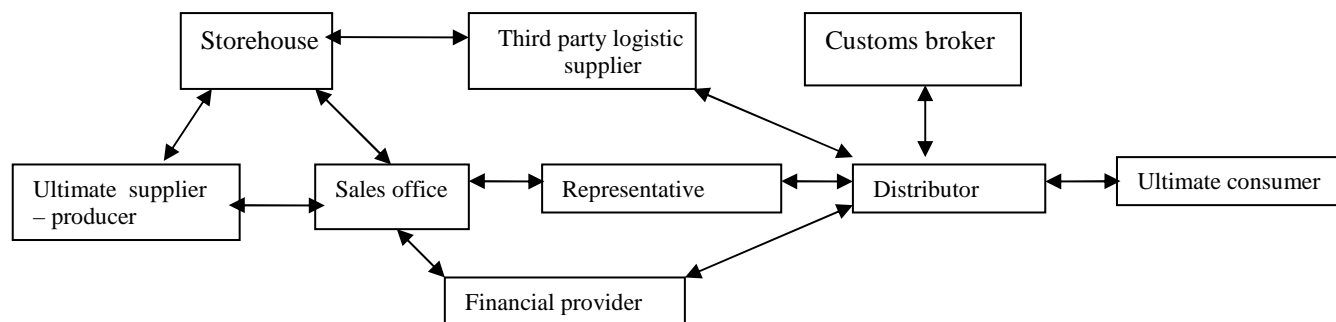
### Distribution with European market

Cooperation with foreign supplier is also good opportunity to expand the assortment, which allows finding new consumers. It is important to mention that international relations affects favorably on the image of the company.

In 2006 «Ruskhimset» had started to develop international business. Company employed a specialist in international trade and established “International relation department” in the company structure.

The well-known European companies are open to the cooperation, and most of them have got representative offices in Moscow which are good help to facilitate development of relationships.

The scheme of distribution channel in this case is as follows:



As we can see the channel is rather complex.

Products in this chain are usually unique, branded, of high quality and thus expensive.

Large European chemical producers provide financial support, e.g. postponement of payment, to the reliable partners but it takes certain time and efforts to prove the reliability.

Communications in this case are to a certain extent formalized and poorly developed. On the one hand, formalizing communications seem quite sound in terms of some business processes, such as placement of orders, arrangement of shipment receipt of shipping documents, payment etc. On the other hand, underdeveloped communications prevent taking into account special demands and requests of consumer.

Information exchange occurs mainly between representative working in Russian office and customer care manager in the point of shipment. Therefore the distribution efficiency strongly depends on personal relationships and individual qualities of certain persons. As to strategic issues of business relationships, they are usually defined on the CEO level.



European suppliers consider the BRIC markets to be very perspective and thus are intended to expand looking for further projects. As a result, transactions tend to increase constantly being quite regular and stable.

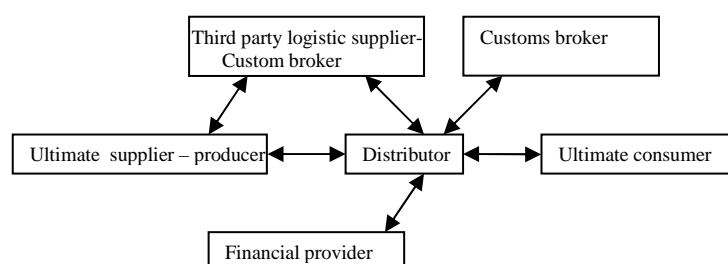
European products are not yet well known for Russian companies. The overall demand for these products is quite modest. It appears to be one of the important obstacles in development of interactions. But in fact the main obstacle for effective development of relations with European companies is high price of the goods. The lower price could be provided by Asian suppliers.

Working major European suppliers local distribution company becomes a part of complex relations of transnational corporations.

### **Distribution with Asian market**

In search for cheaper supply «Ruskhimset» started to establish contacts with Asian suppliers, since Asian countries have recently gained quite good competitive positions as producers of chemical row materials. Now production capacities of Asian region account for 20 mln. tones of PVC (about 50 % of worldwide capacities). Price-quality relationship for PVC from Asia is quite appropriate, and there are numerous suppliers. Still they have some common disadvantages, and the main problem is long period of delivery (45 to 60 days). The main way to start relationships with Asian companies is to take part in the exhibition. The interaction process between Russian and Asian firms is very intensive now but not very effective due to the language and culture differences.

The main problem in collaborating with Asia is long lead time. Working on the prepayment conditions «Ruskhimset» has to tie finance for 2-3 months. Another disadvantage is alteration of prices occurring almost every week. The final consumer price correlates strongly with fluctuations of ruble to dollar exchange rate. Price of the offer depends on stock exchange price and demand on the local (e.g. Chinese) market. Due to mentioned reasons transactions with Asian producers are quite risky. Aiming to decrease the uncertainty and to create mutual trust «Ruskhimset» facilitates development of distribution network with some partners from Asia. The chain of distribution in that third case usually is as follows:



## Time-homogeneous Markov chain

Further we will try to apply the mathematical tool of Markov's chain theory to the process of distribution network creation, presuming that time-homogeneous Markov chain has got numerous similarities with the process due to the following:

1) Probabilities of future states of the process depend only on the present state. This can be used for description of opportunistic behavior of actors. It is applicable for description of network's agent behavior in case of inletting the permanent state which will be set indisputably (i.e. with probability one).

2) Existence of steps. Markov theory is applicable for description of process in discrete time. In our case it can be represented by sequence of transactions between economic agents.

We aim to describe the process of choosing a partner from the set of homogenous agents providing similar goods or services for distributor (product, credit, transport, storehouse, etc.).

Let the set of system's statuses  $(i_1, i_2, \dots, i_N)$  be the set of homogenous agents. Each step is one transaction with one of the agents. There are two options: opportunistic behavior (the choice driven solely by the price offer) and networking behavior (based on well-established supplier-distributor relationships).

In the case of opportunistic behavior we assign probabilities according to prices. For example: if  $a_1, a_2, \dots, a_N$  - prices that offer appropriate actors  $i_1, i_2, \dots, i_N$  and  $\xi$  is random variables that adopts the values  $i_1, i_2, \dots, i_N$ , then probability of choice actor  $i_k$  (distribution of  $\xi$ ) can be set as

$$P(\xi = i_k) = \frac{(a_k)^{-1}}{\sum_{j=1}^N (a_j)^{-1}}.$$

The probabilities of transition are for example

$$\Pr(\xi_{n+1} = j / \xi_n = i) = p_{ij} = I(a_j \leq a_i) \cdot \left( \frac{(a_j)^{-1}}{\sum_{(k: a_k \leq a_i)} (a_k)^{-1}} \right),$$

where  $I(a_j \leq a_i)$  is an indicator function.

For example, if there are 3 transport companies and their transportation services rates are following: 3500 3650 3700 euro per ton.

The matrix of transition probabilities will be the following

$$\begin{pmatrix} 1 & 0 & 0 \\ 0,51773 & 0,48227 & 0 \\ 0,350825 & 0,326796 & 0,32238 \end{pmatrix}$$

This matrix shows probability of moving from one partner to another. We see that probability is higher for the transport company with the lower price. But there is always probability that we will not choose an agent with the best price offer.

The last stroke of matrix shows, that all companies may have equal chances. This situation appears because of two reasons. At first, the price difference is nonsignificant in our case. Secondly, the price does not play the key role in all relations.

In the case of networking behavior we can equal to the highest value, for example 1, the probability of choice of established partner. Then probabilities to choose another partner are equal to 0.

$$p_{ik} = 1; p_{ij} = 0, j \neq k, \text{ if } ik \text{ is our established partner.}$$

For example, the second transport company is a partner in supply chain. Then the most probable choice will be that company. That is matrix of transition probabilities is the following one

$$\begin{pmatrix} 0 & 1 & 0 \\ 0 & 1 & 0 \\ 0 & 1 & 0 \end{pmatrix}$$

This matrix shows probability, that probability of choosing of our permanent partner is equals to 100 %. In that case it does not matter for company how cheaper other transportation services rates are.

Appliance of Markov Chain theory is mostly convenient for step-by-step processes. Moreover some of the processes can be managed or controlled. In this case we have an optimization problem with some objective function. In our case we could try to control the supply chain formation by choosing an partners, that would provide an optimal value of this function.

The problem is trivial when the objective function is oriented only on product or service price. Than the minimal price would provide the optimal value of wealthy objective function.

The situation becomes nontrivial when the hazard component appears. Then we could try to apply some results from optimal control theory. It allows us to compare an opportunistic behavior that has no implicit profit (or implicit hazard) and networking behavior that may provide a compensation for lost profit.

We can formalize our value creation chain with the following criterion function:

$C_{dist} = Tr_{distE} + Ma_{distE} + Fn_{distE} + S_{distE} + Ma_{distI}$  , where:

$C_{dist}$  - cost in distribution network

$Tr_{distE}$  – transport, explicit costs

$Ma_{distE}$  - marketing, explicit costs

$Fn_{distE}$  - finance, explicit costs

$S_{distE}$  - storage, explicit costs

$Ma_{distI}$  -marketing, implicit costs (BTL)

The first attempt will be applying Controlled Markov chain model that allows us to find an optimal strategy in terms of appliance opportunistic or networking strategy. Each transition is provided here by a profit (positive or negative) and we can choose some transition probabilities on each time step from special set.

The existing algorithms of optimization of Controlled Markov chains are quite complex even in small problem dimensions. In our case the simple “brute force” comparison is more compatible.

Markov Chain theory describes the model quite well, so the direction of the further researches is in searching more adequate and simple ways of comparison 2 models of behavior within the Markov Chain theory.

### **Conclusions: transition in distribution from hierarchy to networks**

Our main conclusions are as follows.

We identified in Russia emerging distribution networks of chemicals yet characterized by unstable interrelations. They are a kind of dynamic network headed by focal firm ("chain captain") regulating distribution in commercial terms.

There are many small and medium producers of PVC in Russia. They execute mainly special orders for rather small quantities, so the individual client approach has to be applied and thus development of network relationships is reinforced.

Specific feature of "wholly domestic" chains are social contacts being the main base of business relations – close to the network type described by M.Granovetter (Granovetter, 1983; Granovetter 1985).

As to distribution networks including foreign partners, the main concern is the reputation of partners and their goods. Still, in case of «Ruskhimset» there is also an obvious search for partners providing fair prices.

Distribution network including European partners usually becomes a part of already existing European distribution chain and thus becomes a kind of "outlier" on the Russian market.

Cooperation with Asian partners is not yet well developed but concerned to be very perspective and thus has a good potential.

Due to distribution chain stability and flexibility gained through networking, the company could face and survive the crisis. As an example, long term cooperation served as a base for trust within the network, that's why it was possible to get some agent's payments postponed. It is important to underline that some competitors had to leave the market while the company's profit increased rapidly in 2009.

Our main conclusion based on analysis of value creation in distribution network of «Ruskhimset» Company is as follows. Network approach to distribution of chemical products is helpful in terms of competitiveness. So, networking does matter – moreover, it is of great importance in unstable environment. In Breyer's words, "The channel group is obviously more than mere collection of individual channels – it is in the nature of a network" (Breyer, 1964).

Companies on the market of chemicals are turning their hierarchical supply chains into strategic networks of partnerships but still fragmented. Networks are based on pooling complementary skills and resources by a huge number of actors whose activities are coordinated and synchronized by distributors.

In our case a focal company «Ruskhimset» initiated cooperation and establishing network relationships and managed to coordinate the flow of information and goods quite successfully.

Markov Chain theory describes the model of network formation quite well, so the direction of the further researches is in searching more adequate and simple ways of comparison 2 models of behavior within the Markov Chain theory.

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## THE ROLE OF ENVIRONMENTAL FACTORS IN EUROPEAN AIRLINES' WEBSITE LOCALIZATION DECISIONS

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### Abstract

The purpose of this paper was to examine the role played by environmental factors on airline's decision to launch market-specific websites. The methodology followed was a logistic regression analysis based on 440 observations of home-target country dyads collected from websites of nine European airlines, and supplemented by additional sources of macro level indicators. Unit of analysis is the country dyad. Findings suggest website traffic volumes originating from target country, demand conditions in target country, cultural distance between home and target country, competition intensity in target country, and geographical distance between home and target country all influence the decision to launch local sites. The cultural dimensions of individualism, masculinity, power distance, and uncertainty avoidance, as well as the legal, commercial and IT infrastructure conditions in target countries don't impact the same decision. The current study switches the research focus from what constitutes website localization into what dictates localization efforts' implementation. Surprising findings suggest that counter to earlier suggestions infrastructural conditions and cultural dimensions' levels in target markets do not predict the launch of local sites, and that geographical distance impact decisions related to the geography neutral medium of the Internet. The study's findings are limited contextually to B2C e-service models, the airline industry and the European origin. Other industries, business models or regional origin of firms may exhibit different patterns.

**Keywords:** Website, Localization, e-Marketing, International Marketing, Airlines

### Introduction

A key dilemma in international marketing is the tension between standardization and adaptation of marketing strategy and mix (Ryans et al., 2003, Szymanski et al., 1993, Theodosiou and Leonidou, 2003). Proponents of standardization herald cost reduction efficiencies riding the waves of globalisation and market convergence trends, while supporters of adaptation point to a complex reality of lasting variations across country markets requiring the firm's attention and commitments for long-term profitability.

This dilemma is also becoming increasingly relevant in the context of Internet-based international commercial activities, where the use of a globally uniform Internet technology is constrained by the local embeddedness of commerce, as is recognized in a limited but

growing body of literature (Grant and Bakhru, 2004, Okazaki, 2004, Tixier, 2005, Guillén, 2002, Singh et al., 2004, Singh and Boughton, 2005); a dilemma often associated with the challenge of 'Website Localization', which is becoming even more important when one considers that websites have been suggested to have the potential of both supplementing and replacing physical presence in foreign markets (Vila and Küster, 2004, Shneor and Flåten, 2008, Forsgren and Hagström, 2001, Petersen et al., 2002).

Current research into website localization focuses on identifying localization elements and their impact on user perceptions of websites (Cyr and Trevor-Smith, 2004, Fletcher, 2006, Chakraborty et al., 2005, Singh et al., 2006, Tixier, 2005, Singh et al., 2004), identification of cultural depictions in country specific websites (Sinkovics et al., 2007, Okazaki, 2004, Singh et al., 2005b, Singh et al., 2005a, Singh and Baack, 2004), and website localization measurement (Singh et al., 2009, Gibb and Matthaiakis, 2007, Singh and Boughton, 2005).

Conceptually, website localization was defined as the process of customizing a website for a specific cultural group so that it seems natural or "local" to members of that particular culture (Singh et al., 2009); hence, being consistent with notions of adaptation as prevalent in international marketing literatures. However, the pre-occupation with culture leads to ignoring other seemingly relevant environmental factors, which differ across borders, and may carry influence on the extent to which firms localize their websites.

The current paper seeks to contribute to this body of knowledge by switching the research focus. Instead of examining what constitutes website localization and what kind of impacts it has on consumer behaviour, the focus is here is on assessing the roles played by various factors in firms' website localization decisions. More specifically, the study will focus on examining the impact of environmental factors on website localization.

Such effort will be based on a suggested operationalisation of Javalgi and Ramsey's (2001) framework of four infrastructures that are expected to influence e-commerce growth in foreign markets, including: technological, commercial, socio-cultural, and governmental-legal infrastructures. In addition, demand conditions, cultural distance and physical distance between home and target markets will also be evaluated. Hence, the four infrastructures plus demand reflect conditions in the potential target markets, while cultural and physical distance reflect relative positions of target markets in relation to the home market.

The impact of these factors will be examined with respect to the choice between launching and not launching a market-specific website for different country markets.

Finally, since website localization strategies were found to be more relevant for B2C business models (Singh et al., 2005a, Singh et al., 2004), and since service industries have witnessed an increase in international trade due to the diffusion of e-commerce (Javalgi et al., 2004), this study focuses the analysis on B2C e-services in general, and soft e-services in particular. E-Services were classified as either 'hard' or 'soft', where hard e-services deal with



getting goods or services to customers, and 'soft' e-services are concerned with issues of website design, data information readiness, and transactions (Douglas et al., 2003). One of the international service industries to be significantly impacted by Internet diffusion and e-commerce growth is the airline industry (Buhalis, 2004, Driver, 1999). And, therefore, the current study will focus on airline e-service websites' localization.

First, a brief review of website localization motivations and limitations will be presented, followed by insights into the role environmental factors are expected to play in Internet-based cross-border activities. Based on which, ten hypotheses are suggested, linking the conditions in target markets and their expected effect on website localization decisions. A regression analysis follows, using data collected from European airlines' websites and secondary sources of macro level indicators. Finally, results are discussed while highlighting key findings, acknowledging limitations, and suggesting further research venues.

### **Website Localization Motivations and Limitations**

Localization, or national differentiation strategies, may be applied to online activities in various forms, the most common of which involve cultural and language adaptations of websites. Earlier studies found that the web is not a culturally neutral medium (Singh et al., 2003) and that culture impacts format, layout, and design of e-commerce websites (Lo and Gong, 2005, Simon, 2001), as well as content depictions (Singh et al., 2005a, Okazaki, 2004, Singh et al., 2005b, Singh et al., 2003, Singh and Baack, 2004)

According to Luna et al. (2002) culturally adapted websites reduce the cognitive efforts required from the visitors to process information on the website, which in turn leads to easier navigation and the development of favourable attitudes towards the website. In this context, various studies indeed show that the extent to which websites are localized positively impacts customer preferences (Singh et al., 2004), purchase intentions (Singh et al., 2006), and has the potential to increase online sales (Tixier, 2005); all indicating that an understanding of the phenomenon and its characteristics is of great value for firms active internationally.

While, in principle, these findings encourage firms to engage in website localization efforts, the extent to which websites are actually localized varies. In fact, Tixier (2005) showed that firms often opt for a 'globalisation' strategy, rather than pure localization, where global branding is united with adaptability to specificities of national expectations without going through complete localization. Such notions are further supported in other studies showing that although host country adaptations are evident in MNCs' websites; these do not constitute complete transformations to local cultural needs (Singh et al., 2005a, Singh and Boughton, 2005, Singh and Baack, 2004, Sinkovics et al., 2007).

### **The Role of Environmental Factors**

Various authors (Grant and Bakhru, 2004, Guillén, 2002, Quelch and Klein, 1996, Chen, 2007, Samiee, 1998) claim that although Internet is both a product and a vehicle of

globalization, it doesn't eliminate the impact of location-specific factors, pressures and structural constraints. However, earlier studies examining the role of environmental factors in Internet-based commercial activities haven't looked into website localization as such, and focused on variations of Internet usage levels and online consumer behaviour patterns.

In a study explaining Internet shopping patterns across countries Lim et al. (2004) showed that cultural variables, such as the interaction effect between individualism-collectivism and the uncertainty avoidance dimensions, accounted for 14 percent of the explained variance in their sample. Furthermore, the combined explained variance of market conditions reached 63 percent, including elements such as – national income level, economic growth rate, educational level, unemployment rates, and crime rates. These findings are consistent with a growing literature indicating that cultural dimensions are a sub-set of environmental conditions one must account for when designing online international activities (Rothaermel et al., 2006, Kshetri and Dholakia, 2002, Lim et al., 2004).

In a different cross-country study examining e-commerce activities, Oxley & Yeung's (2001) found that although physical infrastructure explains a large portion of the variation in Internet use, a supportive institutional environment is critical for developing actual e-commerce activities. And therefore, institutional environments must facilitate transactional integrity, especially in ensuring the 'rule of law', and in the availability of credible payment channels. In the same spirit, Guillen & Suarez (2005) have also undertaken a comprehensive cross-country analysis of Internet use, and found that Internet growth is driven not only by socio-economic status, cost or accessibility but also by regulatory, political and sociological variables; where governments can implement policies that enhance Internet use.

A useful framework defining the various environmental conditions assumed to impact e-commerce growth in foreign markets was suggested by Javalgi and colleagues (Javalgi and Ramsey, 2001, Javalgi et al., 2004). This framework includes four types of infrastructures, including - information technology (IT) and telecom, socio-cultural, commercial, and government and legal infrastructures. This study adopts this framework for examining the impacts each of these factors may have on website localization decisions, while expanding it to also include industry-specific demand in target markets, and the relative position of target markets in terms of cultural and geographic distance between home and target countries.

### **IT and telecommunication infrastructure (ITTI)**

ITTI is reflected by the penetration of and access to computers, Internet, communications, and information exchange infrastructures. According to Colby and Parasuraman (2003) the diffusion of e-services is influenced by the technological readiness of their intended users, as they rely on technology and devoid of the human element in traditional service. Therefore, it's here assumed that an advanced IT infrastructure enhances the e-readiness of its users, making them more susceptible to e-commerce activities in general, and e-services in particular. Indeed, a number of studies have shown that technological maturity of target

markets was a key criterion for firms' online market selection (Tiessen et al., 2001, Borsheim and Solberg, 2004, Forsgren and Hagström, 2001).

Higher levels of e-readiness also imply more knowledgeable and demanding customers of the services offered online (Tiessen et al., 2001), and in such markets firms may be expected to launch a local site. This logic fits well with notions of Internet-driven customer empowerment, where firms need to make greater efforts to understand and meet customer needs (Kucuk, 2008, Kucuk, 2002, Rezabakhsh et al., 2006). Therefore, the following proposition is suggested:

H1: The higher the level of IT infrastructure in a target country the higher the likelihood that a market-specific website will be launched.

### **Socio-cultural infrastructure (SCI)**

SCI includes organizations, institutions, social systems and associated relationships, and the processes by which resources are distributed between them. Elements such as language, education level, belief and value systems, traditions and habits, are all assumed to influence technological innovations' adoption and creation (Javalgi and Ramsey, 2001). More specifically, culture has long been recognized as a key factor explaining differences in adopting products and services (Javalgi et al., 2004). And in order for a website to be an effective vehicle for communication across cultures, cultural sensitivity must be taken into account in its content design and structure (Fletcher, 2006).

Perceptions of cultural distance have been repeatedly acknowledged in classical internationalization literature to impact market selection, entry patterns and strategies (Johanson and Vahlne, 1977, Johanson and Wiedersheim-Paul, 1975). According to such approach, the less culturally distant a target market is the lower are the levels of resource commitments and knowledge necessary for successfully serving that market. Therefore, firms may opt for common standardized sites rather than market-specific sites in those markets they perceive as less distant, where service is more cost effective and knowledge is perceived to be more easily attained. Furthermore, firms may be influenced by what Yamin & Sinkovics (2006) defined as the Virtuality Trap, where Internet enhances perceptions of cultural similarities and blurs cultural differences. Accordingly, the following proposition is made:

H2: The higher the cultural distance between home and target country the higher the likelihood that a market-specific website will be launched.

Moreover, once operating in a certain foreign market, firms may develop sufficient familiarity with the local culture to be able to adapt its marketing practices and communications to local needs. Here, website-based activities are of no exception, as was shown in studies indicating that website design is rich with cultural depictions, differing significantly between countries within and across organizations (Okazaki, 2004, Sinkovics et al., 2007, Singh et al., 2005a, Singh et al., 2005b, Singh et al., 2003). Therefore, by using Hofstede's (2001) four cultural dimensions – individualism, masculinity, uncertainty avoidance, and power distance, one may derive a number of hypotheses about such adaptations aimed towards higher levels of congruence with local cultural preferences. Indeed, earlier research showed that Hofstede's cultural dimensions impacted online market entry decisions of Internet firms (Rothaermel et al., 2006), which manifested themselves in the launch of local sites.

First, individualism reflects the level to which members of a society are primarily concerned about themselves and their immediate family rather than with society at large. In highly individualistic societies one expects more self-centred approaches, where end customers expect to be treated as a unique target audience separate from other groups; hence, also exhibiting higher demand for localized formats of service. In this context, individualism levels in target markets were found to impact market entry actions of US Internet firms in the form of local sites' launch (Rothaermel et al., 2006). On the other hand, more collectivistic societies may be contempt with standardized service formats serving large groups of people. Such cultures may be less demanding in terms of having market-specific sites dedicated to their own group. Thus, the following proposition is suggested:

H3: The higher the level of individualism in a target country the higher the likelihood that a market-specific website will be launched.

Second, masculinity reflects the extent to which a society values dominance, performance and successes, while femininity is associated with societies valuing harmonization, consideration towards others, and quality of life. In this context, earlier research showed that masculinity levels in target markets impacted market entry of US Internet firms in the form of local site launch (Rothaermel et al., 2006). Here, masculine societies may view localized service as recognition of their own importance, dominance and power, while feminine societies may accept more standardized formats of service as reflecting harmonious and inclusive processes. Therefore, the following proposition is suggested:

H4: The higher the level of masculinity in a target country the higher the likelihood that a market-specific website will be launched.

Third, uncertainty avoidance captures the extent to which societies are comfortable with uncertain and difficult-to-interpret situations. In this context, uncertainty avoidance levels in target markets negatively affected market entry decisions of US Internet firms and hence the launch of local sites (Rothaermel et al., 2006). Here, cultures characterized by high levels of uncertainty avoidance may be less keen on the impersonal format of Internet service, and may be inherently sceptical towards relatively new modes of transaction, in effect discouraging firms from investing in localized versions of their sites for these markets. Accordingly, the following proposition is suggested:

H5: The higher the level of uncertainty avoidance in a target country the lower the likelihood that a market-specific website will be launched.

Finally, power distance concerns the level to which unequal power distribution is accepted by the members of a society. In this context, power distance levels in target markets positively affected market entry decisions of US Internet firms in the form of local sites' launch (Rothaermel et al., 2006). Cultures with low tolerance towards social inequality may embrace Internet-based formats of service especially for their class elimination properties, and may feel comfortable with standardized rather than especially dedicated service formats. On the other hand, cultures where inequality is the accepted norm may exhibit aversion of common Internet-based service formats, and may demand to reduce any standardization aspect of such services, and hence prefer localized sites. Therefore, the following proposition is suggested:

H6: The higher the levels of power distance in a target country the higher the likelihood that a market-specific website will be launched.

### **Commercial infrastructure (CI)**

CI includes the availability, convenience, and quality of services provided by financial institutions, IT organizations and professionals, and market research organizations. Moreover, the growth of e-commerce is dependent on the emergence of a new Internet-related industry, not only enabling the technology but also ensuring security, reliability and affordability of Internet-based services (Javalgi and Ramsey, 2001). An innovation and business friendly environment is closely associated with liberal and free economy, flexible finance, investment, trade, and labour regimes, as well as high levels of property rights protection. A free economy may be more conducive to Internet dissemination and more

supportive to e-commerce growth domestically and internationally (Oxley and Yeung, 2001, Guillén and Suárez, 2005, Kshetri and Dholakia, 2002). Therefore, the following proposition is suggested:

H7: The more economically free the environment in a target country the higher the likelihood that a market-specific website will be launched.

### **Government and legal infrastructures (GLI)**

GLI is related to balancing the safeguard of consumer rights, industry promotion, and national interest protection. These may include issues such as taxation and electronic payment regulations, as well as concerns of security, privacy, liability, preventing cross-border fraudulent activity, copyright protection, database protection, adherence to local advertising regulations, etc (Javalgi and Ramsey, 2001). The quality of the national legal framework may be captured through the extent to which the rule of law prevails and is enforced in a particular market. The rule of law has been acknowledged earlier as critical towards ensuring transactional integrity, which promotes e-commerce development (Oxley and Yeung, 2001). Markets where the rule of law prevails may exhibit greater pressures towards localization of service formats, both since operating within them requires strict adherence to local regulations, and since firms feel more protected against transaction failures and law violations by customers and competitors. Therefore, the following proposition is suggested:

H8: The higher the levels of the rule of law in a target country the higher the likelihood that a market-specific website will be launched.

### **Demand conditions (DC)**

DC refers to market size and demand volumes' estimations for a firm's offering. Building on transaction cost economics logic, it is here assumed that larger markets offer more opportunities and therefore more incentives for firms to invest (Rothaermel et al., 2006). In such markets costs associated with localization efforts will be outweighed by the potential benefits. Accordingly, a number of studies examining Internet-related firms showed that market potential in terms of size and volume estimations has influenced online market entry activities (Borsheim and Solberg, 2004, Rothaermel et al., 2006, Forsgren and Hagström, 2001), including the launch of local sites. Furthermore, a study by Tiessen et al. (2001) suggested that firms tend to adapt their sites to foreign markets where they conduct significant levels of

business, identifying a propensity to invest in website localization for markets based on demand. Therefore, the following proposition is suggested:

H9: The higher the demand levels in a target country the higher the likelihood that a market-specific website will be launched.

### **Physical distance (PD)**

Earlier research, in the offline internationalization context, has shown that geographical distance is associated with internationalization behaviour patterns, where the more distant a country is the lower it's in foreign market entry priorities (Clark and Pugh, 2001), and that it has a distinct impact on foreign market entry decisions separate from that of psychic distance (Dow, 2000). However, when considering online services, Internet is often believed to neutralize physical location constraints, while allowing continuous access to customers across geographies and time zones (Lituchy and Rail, 2000, Afuah and Tucci, 2003). Therefore, one may expect that unlike offline efforts, physical distance as such should have no impact on decisions related to website localization. Accordingly, the following proposition is suggested:

H10: Physical distance between home and target country will have no influence on the likelihood of market-specific website launch.

## **Methodology**

### **Context**

Since Internet's impact is especially pronounced within the context of the travel industry in general (Buhalis, 1998, Law et al., 2010, Rayman-Bacchus and Molina, 2001, Law et al., 2009) and the airline industry in particular (Buhalis, 2004, Driver, 1999), and since airlines have been found to use Internet for establishing their brand names and enlarging their market segments (Law and Leung, 2000), it was assumed that such context would be most beneficial for the purpose of the current analysis. Moreover, since website localization strategies were found to be more relevant for B2C business models (Singh et al., 2005a, Singh et al., 2004), and since service industries have witnessed an increase in international trade due to the diffusion of e-commerce (Javalgi et al., 2004), the author has chosen to focus the analysis within the context of the commercial airline industry.

### **Unit of analysis**

The unit of analysis used in this study is the Export Dyad. Export Dyad is defined as a combination of different home and target countries. These country combinations reflect an

airline's home country of operations on the one hand, and a relevant foreign market in which that airline is operating, on the other. A 'relevant' foreign market is where an airline is either operating through a physical ticketing office, a country-specific website, or a combination of both physical office and country-specific website. Indirect forms of market service were not considered, as their localization is often outside the scope of the particular airline's efforts.

### **Sample**

The dataset of export dyads, as created by the author, is based on a systematic content analysis of 9 European airlines' websites, which took place during August 2009. The chosen airlines represent firms of different size, regions within Europe, as well as memberships in the industries' various leading alliances (see Table 1). The common thread uniting all these airlines (beyond their European origin) is the use of a common strategy for serving international markets online, operating differentiated country-specific websites for most of the foreign markets in which they operate. The airlines included represent 15.8% of all IATA (International Air Transport Association) registered European commercial passenger airlines in 2009, and 39.13% of those airlines using the same glocal e-strategy (country-specific websites rather than a global website or a language only differentiated website).



<i>Airline</i>	<i>Home Country</i>	<i>Region</i>	<i>Alliance (2009)</i>	<i>Year of Est.</i>	<i>Annual Turnover (2008) In Million Euros</i>	<i>Number of Employees (2007-2008)</i>	<i>Fleet size (2009)</i>	<i>Number of Export Dyads (Home-Target Markets)</i>
<i>Aer Lingus</i>	<i>Ireland</i>	<i>Northern Europe</i>	<i>N/A (withdrew from the One World Alliance)</i>	<i>1936</i>	<i>1,357</i>	<i>3,900</i>	<i>42</i>	<i>Total – 30 Local Site – 21 No Local Site – 9</i>
<i>Brussels Airlines</i>	<i>Belgium</i>	<i>Western Europe</i>	<i>N/A (expected to join the Star Alliance)</i>	<i>2006 (Sabena in 1923)</i>	<i>984</i>	<i>3,000</i>	<i>45</i>	<i>Total – 63 Local Site – 34 No Local Site – 29</i>
<i>Czech Airlines</i>	<i>Czech Republic</i>	<i>Central Europe</i>	<i>Skyteam</i>	<i>1923</i>	<i>907</i>	<i>5,479</i>	<i>50</i>	<i>Total – 67 Local Site – 45 No Local Site – 22</i>
<i>Iberia</i>	<i>Spain</i>	<i>Southern Europe</i>	<i>One World</i>	<i>1927</i>	<i>5,450</i>	<i>20,000</i>	<i>140</i>	<i>Total – 55 Local Site – 45 No Local Site – 10</i>
<i>KLM</i>	<i>Netherlands</i>	<i>Western Europe</i>	<i>Skyteam</i>	<i>1919</i>	<i>8,028</i>	<i>33,000</i>	<i>117</i>	<i>Total – 81 Local Site – 72 No Local Site – 9</i>
<i>LOT</i>	<i>Poland</i>	<i>Eastern Europe</i>	<i>Star Alliance</i>	<i>1929</i>	<i>791 (in 2007)</i>	<i>3,600</i>	<i>51</i>	<i>Total – 43 Local Site – 27 No Local Site – 16</i>
<i>Lufthansa</i>	<i>Germany</i>	<i>Central Europe</i>	<i>Star Alliance</i>	<i>1926</i>	<i>24,870</i>	<i>108,123</i>	<i>534</i>	<i>Total – 99 Local Site – 84 No Local Site – 15</i>
<i>Malev</i>	<i>Hungary</i>	<i>Eastern Europe</i>	<i>One World</i>	<i>1946</i>	<i>487 (in 2007)</i>	<i>2,971</i>	<i>27</i>	<i>Total – 42 Local Site – 31 No Local Site – 11</i>
<i>TAP</i>	<i>Portugal</i>	<i>Southern Europe</i>	<i>Star Alliance</i>	<i>1945</i>	<i>1,952</i>	<i>6,300</i>	<i>69</i>	<i>Total – 60 Local Site – 20 No Local Site – 40</i>

**Table 1.** Airline descriptives: Notes: All data was collected from the respective airline's corporate websites and annual reports for 2008, or 2007 when 2008 was unavailable.

In total, the dataset comprised 540 export dyads. 100 of which were excluded from analysis due to missing data on some of the variables. Therefore, 440 dyads were analyzed, 317 of which represent dyads served through a market-specific website, and 120 dyads served only through a physical presence in the market, and without a country website. The remaining 3 dyads are special cases where specific countries were served through a regional website with no local presence or country-dedicated site. In 311 of the 317 dyads country websites were used parallel to a physical presence in the markets, and only in 6 observations did airlines serve a foreign market through a country website without having a physical presence there.

### **Data collection procedures**

Content analysis is a tool widely used in studies examining web communications and website design elements (Singh et al., 2009). All country-specific websites in the sample were content analyzed during August 2009 by two researchers simultaneously. Where differences emerged the two researchers discussed the gaps until an agreement was reached on each case. However, since all ratings were based on an objective observation – whether a feature was available on the site or not, very few cases were actually debated.

### **Dependent variable**

For the first analysis, concerning the decision whether to launch a country-specific website or not, a dummy variable was created (LOS), where the value 'one' signified launching a market-specific website for a particular foreign market, and zero signified serving such a market only via a local physical ticketing office or an official representative agent.

### **Independent variables**

The hypotheses presented above addressed ten factors that are expected to influence a firm's decision to launch local sites for particular target markets.

Technological infrastructure levels were captured through the Ln value of International Internet bandwidth (IIB) measured in bits/second/person for each country in 2007, adopted from the April 2009 World Bank ICT at a Glance country reports (The World Bank, 2009). The variable is used here as a proxy for differences in quality of e-commerce supportive Internet infrastructure across countries.

Socio-cultural infrastructure levels are captured through five different variables representing – cultural distance between countries, and four cultural dimensions within countries. Cultural dimensions are captured by country scores along Hofstede's four original cultural dimensions – power distance (PDI), individualism (IND), masculinity (MAS), and uncertainty avoidance (UAI). Scores used are those recorded and estimated in the original study (Hofstede, 2001) and supplemented by additional country scores from later research (Belarus from: Kustin, 2006, Ukraine from: Mitry and Bradley, 1999, Latvia and Lithuania: Huettinger, 2008).

Cultural distance (TCD) was calculated using Kogut & Singh's (1988) composite index built on the deviation along each of Hofstede's four cultural dimensions of each target country (in which an airline operates) from each home country (the airline's home); these deviations are corrected for differences in variances of each dimension and then arithmetically averaged.

Commercial infrastructure is captured through the 2009 country Business Freedom (BF) sub-scores of the Economic Freedom Index, as published by the Heritage Foundation (Miller and Holmes, 2009). The BF score measures the ability to start, operate, and close a business, while being based on ten related factors – time, cost, number of procedures, and minimum capital for starting a business; time, cost, and number of procedures for obtaining a license; and time, cost, and recovery rates associated with closing a business.

Government and legal infrastructure is captured through the Software Piracy Rate (SPR) scores adopted from the 2008 Business Software Alliance Global Software Piracy Study (BSA Business Software Alliance, 2009). The score measures the rate of pirated software out of total software installed on private computers in a certain country during a year. Where pirated software represents the gap between total software and paid software installed during a year. The logic here suggests that high rates of SPR correspond with inadequate levels of government and legal infrastructure to secure online transaction integrity.

Demand conditions were captured by figures of air Passengers Per Capita (PPC) ratios calculated based on data from the 2007 World Development Indicators Report (The World Bank, 2007), which were re-scaled to reflect figures per million inhabitants. Here, data is mostly from 2005, but when missing - figures from earlier years were used.

Finally, physical distance (PHD) is captured as the distance between two capital cities, measured as the Ln (number of kilometers), as used in earlier studies (Dow, 2000).

### **Control variables**

Earlier research showed that higher website traffic volumes influences firms' tendency to launch market-specific websites (Kotha et al., 2001). Therefore, website traffic (VISIT) is used as a control variable. For this purpose, the percentage figures of traffic originating from each target market out of the total non-domestic traffic to an airline's website was used. Traffic figures by country of origin were taken from the Alexa.com Site Information pages during August 2009 (Alexa Internet Inc., 2009). Alexa is a company specializing in gathering site statistics for most sites on the web, while contributing its data to a non profit archive serving Internet researchers. Here, country share of website traffic below 0.7% was usually not reported, and therefore was marked as zero in the dataset.

The second control variable is competition intensity (COMP). Tixier's (2005) study suggested that the intensity of industry competition and the possibility of competitor's entry may affect website localization strategy, implying that greater competition may be associated greater localization. Therefore, for this purpose, competition intensity was captured as the

percentage of airlines serving a certain target country market out of total number of airlines used in this study (i.e. Albania served by two out of nine airlines, and therefore dyads including Albania receive the COMP value of 22%). Although competition may not be on specific direct routes, it still exists when considering indirect flight using alliance and code-share arrangements.

## Methods

A logistic regression is used for assessing the impact of the environmental factors on the choice to launch a country-specific website (Model 1):

$$\text{Log (LOS)} = \beta_0 + \beta_1\text{VISIT} + \beta_2\text{COMP}$$

$$\text{Log (LOS)} = \beta_0 + \beta_1\text{VSIT} + \beta_2\text{COMP} + \beta_3 \ln(\text{IIB}) + \beta_4\text{TCD} + \beta_5\text{PDI} + \beta_6\text{IND} + \beta_7\text{MAS} + \beta_8\text{BF} + \beta_9\text{SPR} + \beta_{10}\text{PPC} + \beta_{11}\ln(\text{PHD})$$

Checking for the potential threats of multicollinearity a variance inflation factors (VIF) analyses were conducted (see Table 3), none of which exceeds 10, the value representing excessive multicollinearity (Field, 2005, Hair et al., 2009). The maximum VIF value obtained was 4.763, suggesting that multicollinearity was not an issue. Moreover, the correlation table (see Table 2) shows that none of the correlation coefficients are above 0.9, thereby indicating that there is no problem of excessive multicollinearity (Field, 2005).

## Findings

Table 3 shows the results of a logistic regression analysis. The test result is significant (chi-square = 152.775, df =12,  $p < 0.001$ ) thereby indicating adequate fit of the data to the model. The Nagelkerke R<sup>2</sup> provides an analogy to R<sup>2</sup> in ordinary least square multiple regression; indicating that 42.3% of the variance is explained by the independent variables.

The Hosmer and Lemeshow Goodness-of-fit Test provides an overall test of the fit of the data to the model. It's considered more robust than general chi-square test. If it's greater than 0.05, we accept the null hypothesis that there is no difference between the data and the model. The value of 0.918, obtained in the analysis, represents a good fit in this respect.

The results indicate that both control variables have a significant impact on market-specific website launch decisions. First, the higher the volumes of visitors' traffic, originating from a particular target market, the more likely firms are to launch a market-specific website for that same market. However, while competition intensity is indeed significantly impacting the likelihood of local site launch, the direction of the impact remains a surprise. Findings here show that the more intense the competition in a certain foreign market the less likely a local site to be launched. This might be explained by a shift in focus in high competition environments from service quality to price attractiveness, where content localization loses its importance, and economic efficiencies via standardization become the main concern.

In terms of cultural distance's impact, hypothesis 2 has been confirmed. The analysis shows that the greater the cultural distance between home and target market, the more likely firms are to launch market-specific sites. Surprisingly, the remaining cultural dimensions seem to have no impact on the likelihood of launching local sites; hence rejecting hypotheses 3-6.

		<i>Mean</i>	<i>s.d.</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>	<i>11</i>
	<i>Local Site (LOS)</i>	0.7205	0.44929											
1	<i>Website Traffic (VISIT)</i>	1.7497	3.52833	-										
2	<i>Competition Intensity (COMP)</i>	74.5720	23.32352	0.388***	-									
3	<i>Internet Infrastructure (IIB)</i>	7.9320	2.21252	0.254***	0.595***	-								
4	<i>Cultural Distance (TCD)</i>	1.7968	1.40292	-0.041	-0.106*	-0.023	-							
5	<i>Power Distance (PDI)</i>	56.7205	21.54767	-0.186***	-0.406***	-0.498***	-0.000	-						
6	<i>Individualism (IND)</i>	49.4045	22.56865	0.370***	0.610***	0.559***	-0.066	-0.640***	-					
7	<i>Masculinity (MAS)</i>	49.2455	20.01215	0.102*	0.073	-0.084*	-0.106*	0.168***	0.067	-				
8	<i>Uncertainty Avoidance (UAI)</i>	67.7205	20.96578	-0.126**	0.058	-0.048	-0.267***	0.333***	-0.320***	0.094*	-			
9	<i>Business Freedom (BF)</i>	74.8223	14.95922	0.195***	0.443***	0.672***	0.018	-0.527***	0.550***	-0.056	-0.268***	-		
	<i>Gov / Legal Infrastructure</i>													
10	<i>(SPR)</i>	49.1659	20.44220	-0.243***	-0.603***	-0.757***	0.060	0.626***	-0.703***	-0.082*	0.216***	-0.763***	-	
11	<i>Demand Conditions (PPC)</i>	1.0052	1.53595	0.110*	0.240***	0.387***	0.035	-0.373***	0.336***	0.070	-0.363***	0.426***	-0.445***	-
12	<i>Physical Distance (PHD)</i>	7.8400	1.09796	-0.216***	-0.441***	-0.446***	0.023	0.219***	-0.404***	0.118**	-0.089*	-0.178***	-0.287***	-0.043

Table 2. Descriptive statistics and Pearson Correlations for Model 1: Notes: N = 440. \* P&lt;0.05; \*\* P&lt;0.01; \*\*\* P&lt;0.001.

	<i>Base Model 1(a)</i>				<i>Model 1(b)</i>			
	$\beta$	s.e.	Exp ( $\beta$ )	VIF	B	s.e.	Exp ( $\beta$ )	VIF
<i>Intercept</i>	-0.089	0.361	-	-	7.163**	2.625	-	-
<i>Website Traffic (VISIT)</i>	0.856***	0.167	2.354	1.177	0.841***	0.180	2.319	1.269
<i>Competition Intensity (COMP)</i>	0.006	0.005	1.444	1.177	-0.018*	0.008	0.982	2.291
<i>Internet Infrastructure (IIB)</i>					0.087	0.090	1.091	3.297
<i>Cultural Distance (TCD)</i>					0.384**	0.129	1.468	1.129
<i>Power Distance (PDI)</i>					-0.007	0.010	0.993	2.186
<i>Individualism (IND)</i>					0.010	0.010	1.010	3.194
<i>Masculinity (MAS)</i>					-0.003	0.009	0.997	1.276
<i>Uncertainty Avoidance (UAI)</i>					0.009	0.008	1.009	1.727
<i>Business Freedom (BF)</i>					0.000	0.013	0.999	2.758
<i>Gov / Legal Infrastructure (SPR)</i>					-0.009	0.013	0.991	4.763
<i>Demand Conditions (PPC)</i>					-0.256**	0.098	0.774	1.474
<i>Physical Distance (PHD)</i>					-0.808***	0.166	0.446	1.553
<i>R<sup>2</sup></i>	.160 (Hosmer & Lemeshow), .173 (Cox & Snell), .249 (Ngelkerke)				.293 (Hosmer & Lemeshow), .293 (Cox & Snell), .423 (Ngelkerke)			
<i>Model <math>\chi^2</math></i>		83.647				152.775		
<i>-2 log likelihood</i>		437.774				375.210		
<i>N</i>		440				440		
<i>Hosmer-Lemeshow Test</i>								
<i>Chi-Square (df = 8)</i>		29.727				3.242		
<i>Significance</i>		0.000				0.918		

Table 3. Parameter estimates and regression results for Model 1

Notes: † P&lt;0.1, \* P&lt;0.05; \*\* P&lt;0.01; \*\*\* P&lt;0.001





Furthermore, and counter to expectations, the IT infrastructure, business freedom levels, and legal infrastructure also played no role in the decision to launch local sites; hence, rejecting hypotheses 1, 7, and 8. One may explain the absence of such relationships in a hidden managerial assumption that Internet is a technology which is here to stay, and will reach all markets sooner or later, regardless of their current level IT, commercial, or legal infrastructures. And, therefore, systems supporting multiple market service may be easily duplicated on a basic level to less promising markets, which in the long term are expected to be fully linked to the Internet and engaged in e-commerce. Furthermore, under such assumptions investments today may allow firms to harness a first-to-market advantage once these markets reach higher commercial and technological developmental levels.

In terms of demand conditions' impact, hypothesis 9 has been rejected. While passenger per capita figures are indeed significantly impacting the likelihood of local site launch, the direction of the impact was unexpected. Findings here show that the higher the demands in a certain foreign market the less likely a local site is to be launched. This might be explained by a more cosmopolitan orientation of frequent travellers from high demand countries.

Finally, and equally surprising, is the rejection of hypothesis 10, indicating that physical distance between home and target markets significantly impacts the launch of local sites, and the more distant a market is the lower the likelihood of a local site to be launched. One explanation may be found in the regional nature of airlines, which are operating more regional routes than long distance ones; hence, prioritizing immediate markets with more frequent flights. Furthermore, since all observations are taken from airlines with European hubs, creates a dualism between geography and commercial infrastructure, where closer markets are also relatively developed economies and distant ones are more frequently representing developing or emerging economies.

## Discussion

Surprisingly enough, only five variables were found to impact the decision to launch a local site. First among these is the volume of website traffic originating from a particular foreign market. A finding supporting an earlier finding by Kotha et al. (2001), being the basis for using this variable as a control variable.

The second variable to impact the decision is the physical distance between the home and target market. While a role for physical distance in internationalization decisions was identified with respect to offline activities (Dow, 2000, Clark and Pugh, 2001), finding a significant impact in website localization decisions remains surprising and somewhat counter intuitive. Here findings suggest that the more distant a target market is the less likely a local site to be launched for serving it. Explanations for this may be found in the regional nature of airlines, and hence the prioritization of immediate and frequently connected locations, as well as in the apparent overlaps between physical distance and economic development levels.

The third influential variable is the demand condition in the target market. While this variable has a significant impact it does so in an opposite direction to that suggested earlier – showing a negative on

local site launch. This may be explained by the cosmopolitan nature of frequent air travellers, who may be less concerned with content localization, and more inspired by global themes and approaches.

The fourth variable making an impact is competition intensity. Here, again, findings contradict Tixier's (2005) findings, showing that competition leads to lower levels of localization rather than to higher levels. Explanations here may revolve around a shift from service quality to price attractiveness in highly competitive environments, which underline operational cost reductions via standardization of service.

The last variable found to be influential is cultural distance. Here, the higher the levels of cultural distance the more likely a local site to be launched. This finding also contradicts findings in an earlier study by Rothaermel et al. (2006), where cultural distance had a significant impact but, again, in an opposite direction. An explanation for this gap may be found in the strategic context in which website localization was viewed in the two studies. The earlier study viewed local site launch as market entry of Internet firms, while in the current study a local site does not constitute a mode for market entry but rather an extension of service channels in markets already entered offline.

The remaining variables were found to have no impact on the decision to launch local sites. Explanations for these somewhat surprising findings are therefore suggested. First, earlier claims about the role of infrastructures on e-commerce development (Guillén and Suárez, 2005, Kshetri and Dholakia, 2002, Oxley and Yeung, 2001) did not translate to impact on localization decisions. The lack of influence of IT infrastructure and commercial infrastructure may be explained in an optimistic view of international firms. A view suggesting that Internet is a technology which is here to stay, and localized sites are either a must in developed countries or a way to guarantee a first-to-market position in developing countries, both of which constituting worthy motivations for investment, regardless of current levels of IT or commercial development in target markets. And, with respect to the lack of influence of legal environment conditions, one may claim that the localization measurement used in this study didn't allow much room for legal issues to make an impact, and could have been revealed with a deeper analysis of website content and legal disclaimers.

A further examination of particular cultural dimensions revealed that none of them carried influence on the likelihood of local site launch. These findings again contradict earlier findings by Rothaermel et al. (2006), who showed an impact of all four cultural dimensions on local site launch by US based Internet companies, as part of their international expansion and market entry. Again, one may claim that cultural dimensions may play a role in market entry decisions, but not in online extensions of service for markets already entered offline.

Alternative explanations may be found in that power distance, masculinity and individualism do not exhibit influence on localization decisions since localization is an effort directed at an aggregated social group level rather than individuals. And, hence, such cultural dimensions may play a greater role in personalization of online content and service, which better reflect recognition of power, self interest, and self image than in localization efforts. Furthermore, the lack of impact of uncertainty avoidance may suggest that concerns with website reliability are of global scope, and are better

addressed via other means than localization, such as secure payment and customer management systems, as well as trusted site seals and certifications.

## Conclusion

The current study shifts focus from what constitutes website localization to what impacts website localization decisions. To the best knowledge of the author, the current study is the first to specifically examine the role of environmental factors in website localization decisions of international firms in general, and in the airline industry in particular. The airline industry was assumed to be of particular relevance since it has been significantly impacted by the diffusion of Internet and e-commerce, it serves multiple international markets simultaneously, and it offers B2C e-services, which are especially sensitive to local responsiveness needs.

The analysis shows that website traffic volumes, demand conditions, physical distance, competition intensity and cultural distance all influence the decision to launch local sites. Here, of particular interest is the suggestion that physical distance plays a role in decisions relating to commercial activities in a seemingly geographically neutral space, as well as the systematic contradiction of earlier studies conducted in different industry contexts. Overall, factors found to have no impact on local site launch include IT, commercial and legal infrastructures, as well as the four cultural dimensions of power distance, masculinity, individualism, and uncertainty avoidance.

## Limitations and suggestions for further Research

Although presenting interesting and surprising findings, as well as being one of the first to address the question of environmental factors' impact on website localization decisions, this study has shortcomings that must be acknowledged.

First, the findings are framed within a particular context, which limits the generalizability of the results. The analysis here is restricted to a B2C (Business to Customer) business model context. And therefore B2B (Business to Business) aspects of online activities within the same region and industry may exhibit different patterns. Second, it's widely accepted that the airline industry has been significantly affected by Internet diffusion and the emergence of e-commerce, while other industries may be less affected by the technology and therefore exhibit different patterns. Third, the European home market context may reflect a certain starting point of operation from economically developed and Internet accessible home markets, and airlines from other regions and especially less developed ones, may, again, exhibit different patterns. And, fourth, the summer of 2009 restricts the analysis to a particular point in time, and especially in the context of a constantly evolving technology such as the Internet, future longitudinal studies may be able to trace a change in the impact of various factors in website localization decisions. All these contextual limitations serve as a productive starting point for future research investigating the same questions in different industries, regional settings, and points in time; which may later be compared with this study's findings.

Finally, this study shows that although environmental factors play an important role, accounting for 30%-40% of the variance, they do not represent the full picture, and future research should also

look into micro level internal factors and their impact on localization decisions, as well as on potential interactions between internal and external conditions.

## Biography

**Rotem Shneor** is a research fellow and lecturer at the University of Agder in Norway, specializing in international marketing, e-business and the internationalization process of the firm. Additional research interests include international e-marketing, cross-cultural management, and social aspects of management processes and decision making. He is a former graduate of the Hebrew University in Jerusalem as well as the Norwegian School of Economics and Business Administration in Bergen.

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## THE MPDTOR: A NEW BRAND KEY MODEL

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### Abstract

While the brand key methodology, also referred to as brand architecture or brand structure, is widely used to formulate brand marketing strategies by manufacturers, consulting firms and advertising agencies, the academic world has neglected this approach as an area of research and study, preferring to focus on brand extension strategies rather than brand key blueprints for creating and researching brand strategies. In an effort to rectify this, the paper below suggests a comprehensive brand key model that has six dimensions: 1) the market and competition dimension deals with the competitive landscape; 2) the product dimension describes the way the product category influences consumer perceptions; 3) the brand DNA represents the basic construct of the brand (values, benefits and personality); 4) brand territory describes the brand positioning and its relative functional and emotional advantages; 5) the outcome embodies how the consumer feels about the brand and his/her judgments in using it; and 6) reputation represents the value of the brand to the consumer and its owner.

**Keywords:** Brand Key, Brand Architecture, Brand Structure, Brand Reputation, Brand Value

### Introduction

This study deals with the brand key concept which is also known as brand architecture or brand structure. The concept of brand key may be defined as the elements of a brand that are constructed by the company and reflect the role of the brand for the company and its consumers. The brand "blueprint" is the brand key. Thus, the way the company builds the brand structure is influenced by the company's marketing strategy and the brand portfolio strategy. The brand structure, in turn, affects the functional and emotional reasons why consumers choose to use the brand. By building brand key architecture, the company creates "brand baggage" (Rajagopal and Sanchez 2004) that affects the thinking and feelings processes of those who consume the brand ("What do I think and feel when using the brand?" and "How do others think and feel about me as I use this brand?").

Keller and Lehmann (2006) discuss the brand value chain and offer a comprehensive "Systems Model of Brand Antecedents and Consequences" that describes the process of brand development. The model consists of four systems that are affected by market conditions and players:

1. Company actions that represent what companies do in terms of planning and marketing strategy, direction and implementation.
2. What customers think and feel about a brand in terms of awareness, association, attitudes, attachment, activities and post-purchase satisfaction.

3. What customers do about a brand is the process of decision-making and purchasing behavior as a result of thinking and feeling processes.

4. Financial market impact represents the brand value (customer-based, company-based and financial-based).

Although the creation of the brand key or the architecture of the brand is part of a company's actions and programs, the academic literature has neglected the basic models of brand architecture. The main focus of study has been brand extension strategies. As noted by Aaker (2004) and Keller and Lehmann (2006, p. 749), "Brand architecture has been studied [only] in the context of line extensions, sub-brands and brand portfolio".

### **Brand Key Models**

In marketing, however, practitioners are mainly dealing with "Company Action" with consultants and advertising agencies providing many planning programs, models and tools for their clients' brands. Unfortunately, most of these models have never been publicized or discussed in the academic literature and consequently they neither received the status of academic research nor were "approved" by the academic research community. Among these models are: the Foot Print of McCann Erikson; Unilever's Brand Key; the 360 degree of Ogilvy; Carlsberg's Key Opener; Publicist's TABS ; Dragon's Ellipse Model; and others. The current study examines four uniquely different models and suggests a model that takes into account the constructs that underpin these and other models.

The only model publicized in the academic literature has been Keller's model (1993). His current book Strategic Brand Management (Keller 2008), as well as earlier editions of it, discusses this concept termed "brand building block dimensions". Despite this term, Keller (1993) considered the model as more of a brand equity model than a brand architectural structure model. The model actually represents the consumer's response to the company marketing actions and brand architecture. It deals with consumer brand awareness, image, perceived brand performance, judgment and feelings that result in "resonance", creating brand satisfaction and loyalty.

The earliest brand key model was the "Brand Wheel Model" (Figure 1). This model has five components which still appear as the backbone in most brand key models. The first component, attributes, describes the physical characteristics of the branded product. The second component, benefits, delineates the functional and emotional benefits the user will derive from using the brand. The third component is values, representing what the brand stands for or what beliefs drive the brand. The fourth component, brand personality, describes the brand characteristics as "a person" that the user may have relationships with. The importance of brand personality has been widely discussed in the academic literature dealing with "brand value" (e.g., Aaker 1996, Aaker 1997, Keller and Lehmann 2006). The last component, the essence represents "the distillation of the brand's genetic code into a clear thought" (the Unilever Model definition) that convey the underlining reason for buying and using the brand.



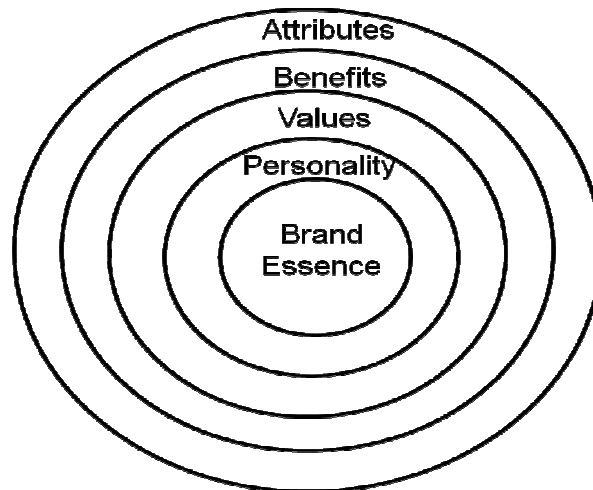
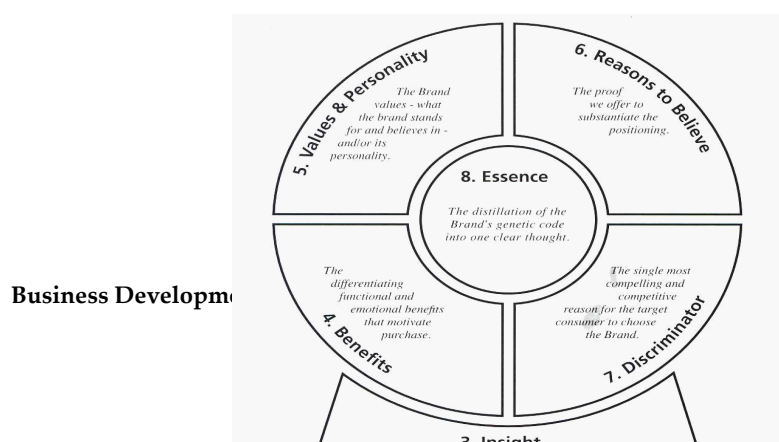


Figure 1: The Brand Wheel Model

The Unilever Brand Key Model (Figure2) is an extension of the Brand Wheel Model. The Unilever model added five more components to the brand key concept. The first components deal with the market. Competitive environment focuses on alternative choices in the market and the marketing activities of the competition. The second component, the target, defines the person and the situation and the individual's profile (attitudes, values and demographics). The third element of the market, insight, represents the target consumer's underlying need to use the brand or the reason "upon which the brand was founded" ). Two other components have been added to the brand structure itself -- reason to believe and discriminator. Reason to believe is the "proof" the brand offers to substantiate its position and the reason to use it. The discriminator represents the competitive advantage of the brand or as Unilever defined it "the single most compelling and competitive reason for the target consumers to choose the brand".

The "Ellipse Model" was developed by Dragon the international brand consulting company. This model added four important dimensions to the architecture of the brand key – brand style, brand scope, brand promise and brand ambition. Brand style -- the characterization of brand tone and behavior -- is important for advertising. Brand scope defines the functional and emotional boundaries of the brand. That is, it delineates what kind of products may be placed under the brand umbrella and the type of messages and promises it can carry. Similar to the Unilever discriminator component, the brand promise is the most compelling reason to use the brand; it is what the brand offers to the consumers. The brand ambition deals with the goals of the brand or what the brand wants to achieve.

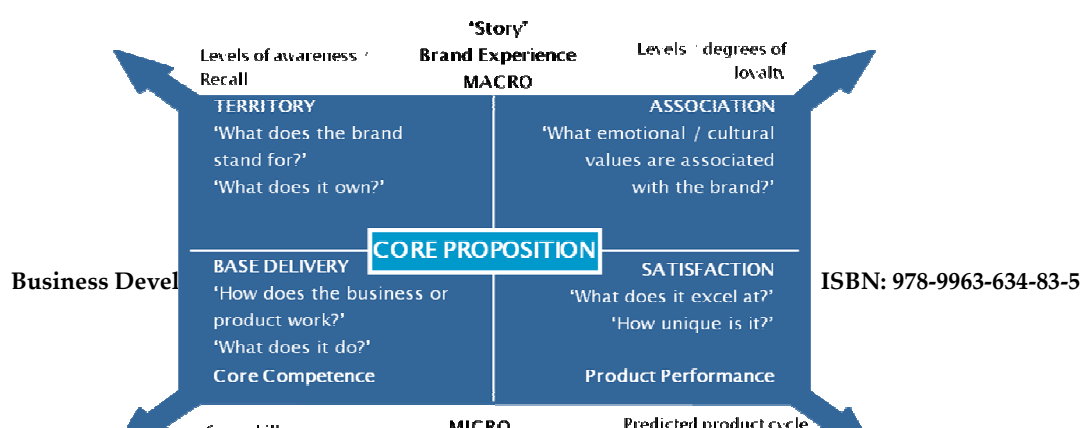


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Figure2: The Unilever Brand Key Model (EURIB 2009):

The last model described here, TABS, was developed by the advertising conglomerate Publicist. TABS, an acronym from the words territory, association, base delivery and satisfaction (Figure 3), describes the architecture of the brand and the outcome for some elements of brand equity. From the point of view of brand architecture, the important contribution of this model to other brand key models derives from the concepts of territory, associations and "base delivery. A brand should capture and control a piece of a territory in the mind of the consumer. This "territory" represents the position that differentiates the brand from other competing brands. The concept of "associations" deals with all the brand relationship with the consumer's emotional and cultural associations and values. "Base delivery" represents the product category experience. Different product categories have different uses and represent various experiences. Reading a fashion magazine is not the same as reading a sports or news magazine.

The following considers all the components of these models and offers a comprehensive model that will benefit practitioners as well as prove useful in academic studies.



*Figure 3: Publicist's TABS*

## The MPDTOR Model

The MPDTOR model that we propose has six dimensions: Market, Category, DNA, Territory, Outcome and Reputation:

1. Market and Competition deals with the competitive landscape, the target market and the attitudinal and social-cultural and demographical characteristics of those associated with this market. .
2. Category describes the way the product category, regardless of the brand, can influence the consumer's perceptions. .
3. Brand DNA represents the basic construct of the brand, such as values, benefits and personality.
4. The brand's Territory describes the brand positioning and its relative functional and emotional advantages.
5. The Outcome represents the way the consumer feels about using the brand and the way he is judged in using the brand".
6. The Reputation component represents the value of the brand to the consumer and its owner.

## The Market and Competition

These dimensions describe consumer characteristics as well as the competitive structure of the market. The competitive environment represents Porter's (1991) five competitive forces. The first force consists of competing offerings and marketing activities within the industry. Porter's other forces include the threat of substitute products; the threat from established rivals; the threat from new entrants; the bargaining power of suppliers; and the bargaining power of customers.

The target market deals with target users and target market communications. The users' target market consists of all those who will purchase the brand, usually a wide range of users. However, the communication target market represents only those toward whom the communication is aimed. The communication target market represents the "ideal" user or the "perfect" user of the brand. Many times, this ideal user is portrayed by the character appearing in the brand commercials.

Consumer insight represents a fact or a research truth about a underlining need or want of the target consumers and the reason “for which the brand was founded”. This is usually a basic need that relates to the macro environment as well as to a moment of choice not necessarily related to the product category. This consumer insight may be a consumer expectation, related to a trend, social values or norms etc. For example, the trend to lead a healthy life style or to become a better parent may be the consumer insight for a wide variety of brands related to food, television, a car or even a cellular phone. Each brand can find functional features and emotional reasons that connect the brand in a credible way to such a need.

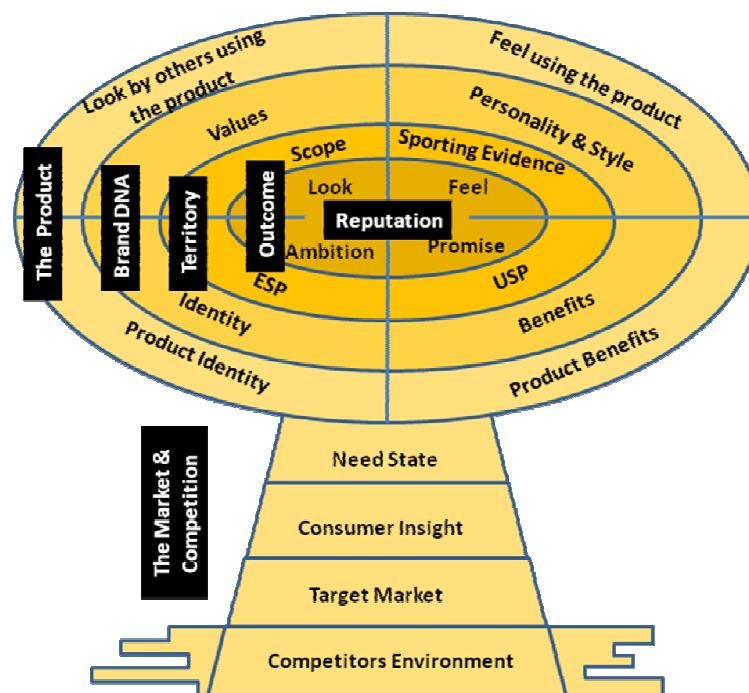


Figure 4: The MPDITOR Model

The need state, related to the product category, describes all the possible needs that underline the reasons why the product is consumed. For example, cheese may be consumed because it's perceived as healthy; easy to use; it supplies the body's need for calcium; it can be used creatively in variety of mixes; and its tasty etc. A brand may satisfy the need to be a better parent (the insight) and by using, for example, one of the needs in the cheese category, create a unique and attractive proposition to the target market. Thus, a brand can be sold in a package containing small portions, each sufficient to satisfy a child's daily need for calcium.

### The Product

The product represents the characteristics and experiences that underline usage of the specific type of product within the product category. For example, driving a 4x4 car offers a completely different set of characteristics and experiences than driving a sport car, regardless of the brand.

Product identity consists of all of the physical characteristics that characterize a specific product. For example, in the category of coffee, a freeze-dry coffee has different characteristics and appearance than a ground coffee. Usually, these physical characteristics are easy to recognize just by watching the different products in a certain category.

Product benefit is related to the product's specific abilities. For instance, in the earlier example of cheese, yellow hard cheese maybe used (in toasting, for pizza etc.) in a completely different way than soft white cheese (the ability to spread the cheese, for baking etc.). A 4x4 car is used for rough areas and a sports car for speed.

The other two components of the product are the way the consumer thinks or feels using the product and the way others looked at them or think or feel about him using the product. Using again the car example, a 50-year-old man may feel young, free, up-to-date etc. when driving a convertible two-seater sport car. Others may look at him and think or feel that he is in a mid-age crisis, want to feel young etc.

### **Brand DNA**

The brand DNA represents the basic components that build the brand: identity, values, benefits, personality and style. The brand identity represents all of the physical characteristics of the brand, including the name; logo (physical and musical); symbol; colors; slogan; jingle, package; designs etc. The values are beliefs that drive the brand and represent what the brand stands for. Values might be quality, respect, honesty, friendly, innovative etc. The benefits are all the reasons why it is worthwhile for the consumer to purchase and use the brand. Such benefits may be the desire to feel young, free, up-to-date, or to attain a sense of achievement etc. Brand personality is the humanization of the brand that enables the consumer to have a "dialog" and relationship with the brand. Aaker's (1997) scale of brand personality suggests five components: passion-sophistication, excitement, sincerity, competence and ruggedness. Brand style represents the behavioral characteristics of the brand personality. The style may be funny, happy, professional, suspicious etc.

### **Brand Territory**

The brand territory represents the functional and emotional position the brand is planning to capture and control in the mind of the consumer. This is the position that differentiates the brand from other competing brands. Three components of this dimension are the elements that build the territory. The Brand USP or the Unique Selling Proposition of the brand is its functional relative advantage and differentiation. The Brand ESP is the Emotional Selling Proposition of the brand or its emotional relative advantage and differentiation. As described above, the third component, brand scope, defines the functional and emotional boundaries of the brand. It delineates what kind of products may be placed under the brand umbrella and the type of messages and promises it can carry. The fourth component is the supporting evidence in regard to the entire marketing mix of activities for such territory. Using the earlier cheese example, a brand of cheese may be organic with only 9% fat. Its USP and ESP are "the only real natural and healthy cheese" while the scope might be the "only organic dairy product" or "only organic food". The marketing activities provide the

supporting evidence and include: the organic product itself; the packaging, design and color (possibly green for nature and white for pureness); the slogan and advertisements; the BTL (Below The Line) and promotional activities;

### **The Outcome**

The building of the brand leads to the outcome which is what the brand would like to achieve within the target market. First there is the brand promise, a short sentence that represents what the brand can do for the consumer. Many times the promise becomes the brand slogan, which is, in a way, a shortcut to catalyzing recall of the brand promise. Nike's "Just do it" is the promise that with Nike "you can do it". Nokia's "Connecting people" promises to bring people together.

The other two components of the outcome are the way the company would like the consumer to think or feel when using the brand and the way others looked at them or think or feel about them when using the brand. This component is similar to Keller's (1993) dimensions of "feelings" and "judgments" in his "brand building blocks". Consider the car example used above dealing with "a convertible two-seater sports car". If the brand key of the two brands is built differently, the feelings and thoughts using a new BMW sport car will be different from those that arise when driving a Mazda sport car. The BMW may provide the feeling of a sports car that offers the "sheer pleasure of driving" while the Mazda sport car might provide a feeling of "Best value for the money".

The "ambition" of the brand summarizes what the brand should achieve for the company. Nokia would probably like it very much if their mobile phones were regarded as the ultimate way that people will want to connect to each other. And Apple undoubtedly may want to be the most desired brand in computers, mobile phones, music players etc.

### **Reputation**

Reputation is the total result of the execution of the entire marketing activities based on the brand blueprint or brand key. The reputation is the perceived value of the brand deriving from the consumer, financial and company perspectives (Keller and Lehmann 2006). The consumer base value is represented by how deeply (functionally and emotionally) the consumer is attached to the brand. The financial base value is the present monetary value of the brand. The company perspective is the "internal reputation" that helps the company decide how much of an effort and what type of effort to invest in the brand.

### **Conclusions**

This paper suggested the MPDTOR model for brand key structure. The MPDTOR Model is a comprehensive model that draws upon elements from several different models currently being used by marketing practitioners. The importance of the model is that it provides a blueprint for brand marketing strategy and activities.

While the brand key methodology is widely used to formulate brand marketing strategies by manufacturers, consultants and advertising agencies, the academic world is focused only on one

aspect and component of brand structure, the brand extension. As Keller and Lehmann (2006) note, most research that deals with brand architecture mainly involves studying brand extension. The MPDITOR brand key model presented here represents an attempt to refocus academic awareness towards brand key methodology as the blueprint for creating and researching brand strategies. Accordingly, the two terms brand architecture and brand extension were separated in this study and a common terminology is now offered:

a. “Brand key”, “Brand Architecture” and “Brand Structure” are the different terms for the same concept that represents all of the elements of a brand that are constructed from and used as the blueprint for the marketing activities by the company.

<i>Dimensions</i>	<i>Components</i>	<i>Brand Wheel Model</i>	<i>Unilever Model</i>	<i>Dragon Model</i>	<i>TABS Model</i>
<i>Market and Competition</i>	<i>Competitive Environment</i>		√		
	<i>Target Market</i>		√		
	<i>Consumer Insight</i>		√		
	<i>Need State</i>				
<i>The Product</i>	<i>Product Identity</i>				√
	<i>Product Benefits</i>				√
	<i>The way a consumer thinks or feels about the product.</i>				
	<i>How others think or feel about the user.</i>				
<i>Brand DNA</i>	<i>Brand identity</i>				
	<i>Brand values</i>	√	√	√	
	<i>Brand Benefits</i>	√	√	√	
	<i>Personality and Style</i>	√	√	√	
<i>Brand Territory</i>	<i>Unique Selling Proposition</i>		√		√
	<i>Emotional Selling Proposition</i>		√		√
	<i>Scope</i>			√	√
	<i>Sporting Evidences</i>		√		
<i>The Brand Outcome</i>	<i>Brand Promise</i>			√	
	<i>Brand Ambition</i>			√	
	<i>Consumer Looked by others</i>			√	
	<i>Consumer Thinks or Feels</i>	<i>Keller (1993)</i>			
<i>The brand Reputation</i>	<i>Consumer Perspective</i>	<i>Keller and Lehmann (2006)</i>			

Table 1: The Source of the MPDITOR's Components

b. “Brand extension strategy” is the relationship between the “Master brand” and its “Sub-brands”. The “Brand Spectrum” (Rajagopal and Sanchez 2004) reflects all the alternative strategies possible for brand extension.

c. Keller and Lehmann (2006) describe how different researchers view reputation: “extended thinking on the consumer-brand relationship” (p. 742) , the ability to create association, brand credibility, belief in the brand etc. In the current study “Reputation” is simply defined as the brand value. According to Keller and Lehmann (2006) brand value has consumer, financial and company perspectives.

In a way, the current paper provides a model for building a blueprint for brands. Future studies may suggest a process to measure and evaluate each component of the brand key.

## Biography

**Dr. Shuv-Ami** is Executive Director of the Executive MBA Program at the college of Management in Israel. He is also the director of the IAA's (International Advertising Association) programs in advertising and marketing communication at the College. Dr. Shuv-Ami is a long-time consultant in business and marketing strategy, product and brand marketing management and advertising. For several years, he served as a working partner in a leading Israeli advertising agency. He has over 20 years of experience as a consultant to medium and large firms in Israel, Europe and in the US. Among the business areas in which Dr. Shuv-Ami has served as a consultant are: the finance industry; food and beverage industry; cosmetics; ,communications; hi-tech; and local governments .

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## THE RELATIONSHIP BETWEEN STORE BRAND, CUSTOMER SATISFACTION, CUSTOMER STORE LOYALTY AND PERSONAL CUSTOMER CHARACTERISTICS: AN EMPIRICAL SURVEY

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### Abstract

The measurement and the analysis of customer satisfaction play an important role for firms, because if customers are not satisfied, not only will they not repurchase the product/service in the future, but will help produce harmful profits. The study aims at analyzing the relationship between a store brand, customer satisfaction, customer loyalty, and buying behaviour, in order to define the socio-demographic characteristics of loyal hypermarket clients, and to establish whether these features influence their loyalty and their emotional involvement. The objective of this work is to determine the impact that customer satisfaction has on loyalty behavior in the large retail market.

We use a methodological statistical approach; an empirical survey was conducted by administering a research questionnaire to collect data and a descriptive and multivariate statistical processing was performed

Research has shown the existence of a relationship of interdependence and dependence between variables of customer satisfaction and customer loyalty, the latter represented by variables that clarify the buying behavior of loyal customers such as: positive word of mouth; brand loyalty including searching for the same store when customers are shopping in other residential areas; and finally willingness to defend the hypermarket against criticism from others.

The paper demonstrate the existence of a construct that combines, customer loyalty and customer satisfaction, widely debated in the scientific community, in relation to the specificity of service.

**Keywords** : store brand, customer satisfaction, customer loyalty, personal customer characteristics, customer behavior, services

### Customer store loyalty, customer satisfaction and personal customer characteristics

Today, more than ever, companies need to confront dogged competition. However, those that are changing from a philosophy of “producing and selling” to a logic of marketing have a better chance of winning, especially since a well-conceived marketing policy is based precisely on a solid relationship with customers. Consumers today are more educated and informed than ever before and

have all the tools to verify company promises and seek suitable alternatives<sup>42</sup>. The measurement and the analysis of customer satisfaction play an important role for firms, because if customers are not satisfied, not only will they not repurchase the product/service in the future, but will help produce harmful profits, advising friends and acquaintances to avoid the company going directly to competitors. The aim of companies is therefore not only to fully meet the expectations of their customers, but bond with them through political loyalty. Customer evaluation of product/service performance can depend on many factors, in particular from the type of loyalty that the customer has towards the brand<sup>43</sup>. Customers base their expectations on past buying experiences, on suggestions of friends and colleagues, as well as on information and promises from competitors and marketing managers. The aim of the company is therefore to fully satisfy those expectations, since, generally, a very satisfied customer stays loyal longer and continues to buy when the company launches new products or improves existing ones, also a satisfied customer speaks well of the company and its products, paying no attention to Brand competition.

It is no coincidence that three decades of research on customer satisfaction have demonstrated the causal relationship between satisfaction and trust, and their influence on decisions to purchase and

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42 Urban Glen L., (2004) "Emerging Era of Customer Advocacy", MIT Sloan Management Review, pp 77-82; Kotler Philip, Kevin L. Keller (2009) *Il Marketing del nuovo millennio*, Person Prentice Hall, Milano; Mittal Vikas, Anderson Eugene W., Sayrak Akin, and Tadilamalla Pandu, (2005), "Dual Emphasis and Long-Term Financial Impact of Customer Satisfaction", *Marketing Science*, pp.544-555; Lanning Michael J., (1998) *Delivering Profitable Value*, Oxford, U.K.; Kotler Philip, Kevin L. Keller, (2007), "Marketing Management", Pearson Education, Italian language edition published by Paravia Bruno Mondadori Editori, Milano, 2007; Reichheld Fred, (2006), "Buoni e cattivi profitti. Il cliente come promotore dell'impresa", Ed. Etas, Milano, Luglio 2006; Costabile Michele, Raimondo Maria Antonietta e Miceli Gaetano, "Un modello dinamico di customer loyalty: evidenze empiriche da una analisi intergruppo con modelli di equazioni strutturali" *Finanza, marketing e produzione : rivista dell'Università L. Bocconi*, 2004, Vol. XXII, n. 4, pp. 41-68; Oliver R.L. (1980), "A Cognitive Model of Antecedents and the Consequences of Satisfaction Decisions", *Journal of Marketing Research*, 4, pp.460-469; Oliver R. L.(1997), "Satisfaction. A Behavioral Perspective on the Consumer", McGraw-Hill, New York; R. L. (1999), "Whence Consumer Loyalty", *Journal of Marketing*, special issue, pp.33-44; Oliver R.L. e Bearden W.O. (1983), "The Role of Involvement in Satisfaction Processes", *Advances in Consumer Research*, vol. 10, pp.250-255. Cristina Ziliani, (2008), "Loyalty Marketing. Creare valore attraverso le relazioni", Ed. Egea, Milano, Aprile 2008; Churchill G.A. Jr. e Surprenant C. (1982), "An Investigation into the Determinants of Customer Satisfaction", *Journal of Marketing Research*, 19 (November), pp.491-504; Castaldo S., 2002, *Fiducia e relazioni di mercato*, Il Mulino, Bologna; Costabile M. (1996), "Misurare il valore per il cliente", Torino, Utet; Dick A. S Basu K. (1994), "Customer Loyalty: Toward an Integrated Conceptual Framework", *Journal of the Academy of Marketing Science*, Winter, pp.99-113; Garbarino E. e Johnson M.S. (1999), "The Different Roles of Satisfaction, Trust and Commitment in Customer Relationships", *Journal of Marketing*, vol.63 April, pp.70-87; Hunt K.H. (1977), (edit by), "Conceptualization and Measurement of Consumer Satisfaction/Dissatisfaction", Report no.77-103, Marketing Science Institute, Cambridge (Mass.) Lam S.Y., Shankar V., Erramilli M.K. e Murthy B. (2002), "Investigating the Interrelationships Among Customer Value, Customer Satisfaction, Switching Costs and Customer Loyalty", working paper, University of Maryland, College Park (MD);

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then on fidelity (Yi, 1990; Iacobucci, Grayson e Omstrom, 1994; Costabile, 1998; Westbrook, 1987; Oliver, 1997; Fournier e Mick, 1999; Oliver, 1999; Agustin e Singh, 2002; Lemon e al., 2002).

However, the relationship between customer satisfaction and customer loyalty is not always proportional and the link "satisfaction-trust-loyalty" is not always verifiable, due to many variables which intervene on the structural conditions of the exchange process and relationships (Jones and Sasser Jr., 1995; Oliver, 1999), so at apparently high levels of satisfaction high fidelity behavior does not necessarily follow. Assuming that customer satisfaction can be measured on a scale of 1 to 6, only at level 6, can we say that the probability that the customer repeat purchases and speaks well of the company is very high. According to Frederick Reichheld loyalty can be measured by the level of consumer willingness to positive word of mouth. Also in "long-lived" customers the intensity of the correlation between loyalty and value to the enterprise is very high, to the extent that the consumer is not only fair but also collaborative: his behavior will be aimed at maintaining the relationship, assuming specific attitudes in a collaborative perspective even when situational or competitive variables might stimulate the dissolution of the relationship. The objective of new marketing policies is to increase the value of the consumer life cycle by maximizing loyalty through strategies that can emotionally involve the customer to the point of inducing him to have the perception that the company knows about his every need. The consumer then feels fully involved, identifying and feeling involved in the performance of the company. This will not only ensure customer repeat purchases and positive word of mouth over time but also, if necessary, the defense of the brand against possible criticism<sup>44</sup>.

The objective of this work is to determine the impact that customer satisfaction has on loyalty behavior in the large retail market. The aim is indeed to analyze what the behavior of customers is when they feel loyalty to the brand that represents the hypermarket, in particular to verify whether in this specific area of service it is possible to apply the same model that generally applies when speaking of customer loyalty in relation to a product or Brand.

## Methodology

This research was carried out at a typical example of a hypermarket of large retailers whose characteristics suited this project as well as identifying factors for the provision of a service from the sale of the product (immateriality immediacy between supply and performance, importance of

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<sup>44</sup>Kotler Philip, Armstrong Gary (2010) "Principi di Marketing", Pearson Prentice Hall, Milano; Lam S.Y., Shankar V., Erramilli M.K. e Murthy B. (2002), "Investigating the Interrelationships Among Customer Value, Customer Satisfaction, Switching Costs and Customer Loyalty", working paper, University of Maryland, College Park; Reinartz Werner and Kumar V.(2002), "The Mismanagement of Customer Loyalty" Harvard Business Review, pp. 86-94; Teck-Hua Ho, Young-Hoon Park e Yong-Pin Zhou (2006), "Incorporating Satisfaction into Customer Value Analysis: Optimal Investment in Lifetime Value", Marketing Science, No 25 pp. 260-277; Tse, D.K., Nicosia, F., Wilton, P.C., (1990), Customer Satisfaction as a Process, Psicologia and Marketing, pp.177-193; V. Kumar, (2006), "Customer Lifetime Value", Handbook of Marketing Research, Rajiv Grover and Marco Vriens, ed. (Thousand Oaks, CA: Sage Publications, 2006), pp 602-627; Yu, Y.T., Dean A., (2000), The contribution of emotional satisfaction to consumer loyalty, International Journal of Service Industry Management, Vol.12, No. 3, 2001, pp. 234-250; Rajkumar Venkatesan and V. Kumar, (2006) "A Customer lifetime Value Framework for Customer Selection and Resource Allocation Strategy" Journal of Marketing, No 68 pp. 106-125.

relational aspects). Some variables of customer loyalty have been identified on the basis of existing literature, and customer satisfaction was measured.

A Likert scale of measurement was used with evaluations from 1 to 6, where 6 expresses the greatest positive assessment (fully satisfied) and 1 negative (dissatisfied). The questionnaire was divided into three main areas:

- The first deals with information on socio-demographic and customer behaviour (necessary to identify the personal characteristics of customers);
- The second deals with specific satisfaction and service quality, with reference to the structure (logistics and internal organisation of individual wards, provision of products, cleanliness of wards...), services (personnel department, personnel all 'After-sales service, efficiency of boxes, visibility of prices...) and products (determinants for the purchase of products, assortment of brands and products...)
- The third deals with the measurement of customer satisfaction and loyalty in general, and is made up of 8 questions about motivation and the duration of the relationship with the company and the overall level of satisfaction regarding the relationship with the hypermarket.

The questionnaire has 54 closed questions; 5 of which measure customer satisfaction, 4 customer loyalty, and 7 deal with quality, the remainder are of a general nature and also refer to products and services.

The questionnaire was administered at different times of the day to obtain a sufficiently large and representative sample of hypermarket customers. Interviews were carried out over a week from Tuesday to Saturday.

534 interviews were held, 285 of which were with member customers who enjoyed special conditions (card purchases, special offers and other facilities) on the basis of which the data was compiled and analysed.

The results of the empirical analysis were carried out using some simple statistical indicators, like mean and standard deviance, and other more complex ones like correlation and multiple linear regression analysis. The calculations were performed using the "STATA Statistics/Data Analysis" statistical programme.

The analysis initially took into account the evaluation of customer satisfaction and the relationship between customer satisfaction and customer loyalty and for this purpose the number of comments was reduced from 534 to 285, as the questions of customer loyalty were only addressed to hypermarket member customers.

The initial phase of the research the objective as to analyze the relationship between customer satisfaction and the behavior of loyal customers on the sample of members. For this purpose we use the application of appropriate statistical tools such as correlation and regression. Customer loyalty

leads the consumer to behave in a specific way, identified in the questionnaire as : positive word of mouth; brand loyalty including seeking the same store when customers are shopping in other residential areas; and finally willingness to defend the hypermarket from criticism by others. These variables identify the loyal customer.

<i>Measurement scale: 1 (dissatisfied) 6( very satisfied)</i>					
<i>Variables</i>	<i>Obs</i>	<i>Mean</i>	<i>Std. Dev</i>	<i>Min</i>	<i>Max</i>
<i>Costumer loyalty/Consumer behavior</i>	285	3.75	1.11	1	6
<i>Customer satisfaction on member status</i>	285	4.81	1.24	1	6
<i>Customer satisfaction</i>	285	4.67	1.18	1	6

*Table 1 Mean values and standard deviation for indicators of customer satisfaction and customer loyalty/consumer behavior.*

*Source: our results.*

High values of customer satisfaction and loyalty are shown in the responses (tab.1) and the values of deviance standard testify to a substantial uniformity of the results.

The correlation analysis between customer satisfaction and customer loyalty/consumer behavior variables (table 2) clearly indicates the existence of an interdependent bond and shows how customer satisfaction, is a factor that will significantly impact on customer loyalty.

	<i>Costumer Loyalty/ Consumer behavior</i>	<i>Customer satisfaction on member status</i>	<i>Customer satisfaction</i>
<i>Costumer Loyalty/ Consumer behavior</i>	1.00		
<i>Customer satisfaction on member status</i>	0.50	1.00	
<i>Customer satisfaction</i>	0.47	0.56	1.00

*Table 2 Correlation analysis between customer loyalty and customer satisfaction (Obs=285)*

*Source: our results.*

The relationship between customer satisfaction and customer loyalty/consumer behavior was also analyzed through regression analysis, assuming that one of two variables, in this case customer satisfaction, has predetermined values and that the other, customer loyalty/ consumer behavior, depends on the first (Table 3).

	Coef.	t	P> t
Constant	1.055	4.25	0.000
Customer satisfaction on member status	0.259	5.76	0.000
Customer satisfaction	0.307	4.63	0.000
Obs = 285		Adj R-Squared = 0.3010	F = 62.15

Table 3 Regression model between the independent variables of customer satisfaction and the dependent variable customer loyalty/consumer behavior

Source: our results.

Table 3 indicates that the values of regression coefficients support the existence of a regression link or predictive value between customer satisfaction variables and customer loyalty/consumer behaviour, so it is possible to identify in quantitative terms how customer loyalty/ consumer behaviour varies the customer satisfaction variable. The significance of the regression model is validated by the study of the "F" test by Fischer ( $F > 1$ ) which is another determination index.

The value given by F Fisher ( $F > 1$ ) means the null hypothesis ( $H_0 : \beta = 0$ ; the lack of a link between regression variables taken into consideration) can be rejected, and implies the alternative hypothesis ( $H_1 : \beta \neq 0$ ) can be accepted, namely that there is regression, since knowing the value of the customer satisfaction variable (X) we have information on the value of customer loyalty/ consumer behaviour variables (Y). The value of F in table 3 is equal to  $F=62.15$ , Another measure of the appropriateness of the regression line in explaining the variability of customer loyalty/ consumer behaviour through customer satisfaction is given by "Adj R-Squared" ( $0 \leq R^2 \leq 1$ ). The value index determination in table 3 can indicate that 30% of total variability of customer loyalty/ consumer behaviour can be explained by the linear relationship with the customer satisfaction variable.

One of the factors by which customer loyalty is measured is the consumer predisposition to positive word of mouth. For this reason the study focused its attention on relations between the variables of customer satisfaction and the predisposition of customer-members to word of mouth, through the application of statistical tools such as correlation and regression.

	Positive word-of mouth	Customer satisfaction on member status	Customer satisfaction
Positive word-of mouth	1.00		
Customer satisfaction on member status	0.74	1.00	
Customer satisfaction	0.52	0.56	1.00

Table 4 Correlation analysis between positive word-of mouth and customer satisfaction (Obs=285)

Source: our results.

	Coef.	t	P> t
Constant	1.177	5.45	0.000
Customer satisfaction on member status	0.155	3.19	0.002
Customer satisfaction	0.644	13.87	0.000
Obs = 285	Adj R-Squared = 0.5657		F = 185.19

Table 5 Regression model between the independent variables of customer satisfaction and the dependent variable positive word-of mouth. Source: our results.

The correlation analysis between positive word-of mouth and customer satisfaction (tab.4) shows the existence of a significant interdependence. This shows that the loyalty rewards, reserved for members are effective, to such an extent as to constitute a determining factor in influencing customer behavior and prompting them to advise others to become members of the hypermarket, enjoying the benefits offered.

The values that engage the regression coefficients indicate the existence of a predictive value of the customer satisfaction variables on the positive word-of mouth variables. The significance of the reduction model is validated and determined by the study of the F test. The validation of the regression analysis in explaining the variability of positive word-of mouth through customer satisfaction is given to the Adj R-Squared" ( $0 \leq R^2 \leq 1$ ); the value that the determination index gives in tab. 5 indicates that the variability of totally positive word-of mouth is 57% and can be explained through the linear relationship with customer satisfaction variables.

Based on the results obtained from the calculations, we go on to define the profile of the typical totally loyal customer taking the level of consumers willingness to positive word of mouth as discriminating variable. The sample was stratified, considering only the members that at the question "Would you recommend someone to join?", on a scale of 1 (few) to 6 (many) assigned a value of 6.

This was done by applying "AID" methodology and is based on relations which identify the discriminating values and on the basis of this stratification, a clear and accurate profile of the typical customer who uses positive word of mouth is obtained..

The variables taken into considerations were:

- Sex (M, F)
- Age (<18, 18-25, 26-33, 34-41, 42-49, 50-57, over 58)
- Profession (student, employee, worker, housewife, contractor, craftsman, unemployed, retired, more);
- Frequency (every day or almost, 3-4 times a week, 1-2 times a week, 2-3 times per month, 1 time per month, less than 1 time per month, rarely, only for deals).

For these 4 factors, we calculated the discriminating Dm value, separating the classes with the proportion of consumers (p1) which is superior ( $p = 0.494$ ), from those with proportion (p2) which is inferior. The highest discriminating value is Sex, so the first dichotomy is based on this (1 ° iteration). Again the discriminating value Dm is estimated for the 4 factors, separating classes with the proportion of customers (p1) which is superior ( $p = 0.828$ ) than those with proportion (p2) of customers which is inferior. The highest discriminating value, by a profession factor, so the second dichotomy is established (2 ° iteration). Repeating the highest discriminating value five times gave the profile of a customer with the following features:

- Female;
- Aged between 50 and over 57;
- Attended the hypermarket 3-4 times a week;
- Occupation: housewife (Tab. 6).



Factors and conditions		Class sizes	Word of mouth	% Word of mouth
		$N_i$	$f_i$	$100p=100(f_i/N_i)$
Sex	M	96	42	43.75%
	F	189	99	52.38%
	Totale	285	141	49.47%
Age	min 18	16	6	37.50%
	18-25	59	19	32.20%
	26-33	31	13	41.94%
	34-41	52	24	46.15%
	42-49	54	33	61.11%
	50-57	44	29	65.91%
	oltre 58	29	17	58.62%
	Totale	285	141	49.47%
Frequency	All day	49	23	46.94%
	3-4 time a week	52	29	55.77%
	1-2 time a week	136	66	48.53%
	2-3 time per month	34	14	41.18%
	1 time per month	8	7	87.50%
	less than 1 month	2	2	100.00%
	rarely	2	0	0.00%
	Tenders	2	0	0.00%
	Totale	285	141	49.47%
Profession	Student	62	20	32.26%
	Employee	66	36	54.55%
	Worker	20	6	30.00%
	Housewife	49	33	67.35%
	Entrepreneur	6	4	66.67%
	Craftsman	1	0	0.00%
	Unemployed	11	5	45.45%
	Pensioner	26	16	61.54%
	Other	44	21	47.73%
	Totale	285	141	49.47%

Table 6 Analysis of the Word of mouth based on personal characteristic personal. Source: our results.

$Dx1 =  f_i - p \cdot N1 $	98.06494737
$Dx2 =  f_i - p \cdot N1 $	78.37168421
$Dx3 =  f_i - p \cdot N1 $	37.69326316
$Dx4 =  f_i - p \cdot N1 $	88.27273684

Source: our results.

These research results allow us to identify and delineate the characteristics of member clients who are more inclined to positive word of mouth and who have the purchasing behavior of a loyal customer. Also through the application of statistical tools such as correlation and regression it is possible to affirm the existence of a strong bond of interdependence and dependence between the variables under study, demonstrating how the behavior of this class of person is particularly influenced by their satisfaction. Thus customer satisfaction can be considered as an antecedent of loyalty because it significantly influences the consumer in his own choices and behavior (Tab.7-8).

	<i>Customer loyalty/Consumer behavior of loyal customer type</i>	<i>Customer satisfaction</i>
<i>Customer loyalty/ Consumer behavior of loyal customer type</i>	1.00	
<i>Customer satisfaction</i>	0.59	1.00

Table 7 Correlation analysis between customer loyalty/ consumer behavior of loyal customer type and customer satisfaction (Obs=18). Source: our results.

	<i>Coef.</i>	<i>t</i>	<i>P&gt; t </i>
<i>Constant</i>	0.545	0.39	0.698
<i>Customer satisfaction</i>	0.757	2.96	0.009
<i>Obs = 18</i>	<i>Adj R-Squared = 0.3137</i>		<i>F = 8.77</i>

Table 8 Regression model between the independent customer satisfaction and customer loyalty/ consumer behavior of loyal customer type. Source: our results.

## Conclusions and Implications

Research has shown the existence of a relationship of interdependence and dependence between variables of customer satisfaction and customer loyalty, the latter represented by variables that clarify the buying behavior of loyal customers such as: positive word of mouth; brand loyalty including searching for the same store when customers are shopping in other residential areas; and finally willingness to defend the hypermarket against criticism from others.

The survey was developed by examining the behavior of member-clients of hypermarkets, who, by virtue of their status, enjoy special privileges and benefits. The results of statistical analysis showed that the level of consumer satisfaction has a positive effect on consumer behavior so as to contribute significantly to encouraging friends and acquaintances to become Brand members. Furthermore, the level of loyalty of members induces customers to seek the same brand in other places, this means that consumers are not just loyal to the hypermarket itself but to the brand that it represents. The study in fact had the objective of investigating customer loyalty to Brands. Based on this consideration and through the AID technique, the member-customer profile was outlined and is inclined to positive word of mouth and therefore is more loyal than most other consumers. The identified sample was analyzed and again the relationships and results confirmed the existence of such ties, particularly in

the regression model we see that 37% of the variability of behavior (and therefore loyalty) is influenced by satisfaction variability.

The data thus shows that customer satisfaction has a significant impact on consumer behavior, particularly on word of mouth which is a determining factor in measuring the level of loyalty of a customer to a product or service as we have stated in this study.

However, the model has limitations. Primarily to validate the results it would be appropriate to repeat the analysis over several years to verify if the sample surveyed actually reflects the loyal superstore customer. The need to extend the research over several years aimed not only at analyzing whether studies confirm the data obtained from this initial research, but also to see if the member-client profile, more predisposed to a positive word of mouth, can be identified with the one outlined in this study. Another limitation is in fact related to the latter results; the sample consists of a small number of observations (only 18) too small to validate the data obtained from the application of statistical tools such as correlation and regression. A larger sample would in fact lead to more reliable results, refuting or confirming the initial assumptions. Finally, to test the model a comparison should be developed, not only temporally but also geographically, proposing the same study in other centers of the same hypermarket chain, situated not only in the same local area but also in other provinces or regions. The sample, in fact, may have abnormal values due to deviations that it may have suffered, since the interviews were collected in the same store in the same city. Therefore it is necessary to work on a more heterogeneous sample and this can only be obtained by collecting data in different areas.

Based on these observations and in order to complete and validate the model obtained in this paper, we propose to test the veracity of the achieved results through further appropriate studies in order to bridge the limitations encountered. For these reasons, the research will focus its attention on specific aspects, such as sample size and homogeneity, developing a sampling in part based on the results obtained with regard to the socio-demographic characteristics of member clients more predisposed to positive word of mouth. The aim is therefore to increase the number of respondents and especially repeat the study over several years and in several locations where there are stores with the same brand of hypermarket under investigation, towards developing both a temporal and geographical comparison.

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## STRATEGIC PLANNING IN UNIVERSITY SPORTS ORGANIZATIONS (MEMBERS OF F.I.S.U)

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### **Abstract**

The primary purposes of this study were: a) to determine the extent to which the strategic planning process is being used in University Sports Organizations (members of F.I.S.U.); b) to identify the key factors that discourage University Sport Organizations (members of F.I.S.U.) from engaging in strategic planning activities; c) to determine the level of satisfaction of University Sports Organizations' (members of F.I.S.U) outputs; d) to develop and recommend a generic strategic planning process model, which can be implemented by University Sports Organizations (members of F.I.S.U.); and e) to examine the relationship between the extent of strategic planning used by University Sports Organizations (members of F.I.S.U) and these selected variables: (a) the organizations' model of governance (public vs. private vs. cooperative); (b) the percentage of students participating in competitions of the university sports organizations to the total number of students engaged in sport activities in higher education; and (c) the percentage of the university sports organizations' self-generated revenues as opposed to state funds.

The findings of this study were as follows:

- Twenty-nine (36.7 percent) of those University Sport Organizations responding was classified as strategic planners, while fifty (63.3 percent) have not met the criteria necessary to be classified as strategic planners (non-strategic planners).
- The external factors that bear the most weight in the formulation of the organizations' plans are N.U.S.F. policies and future trends, educational trends and higher education's policy and strategy.
- Student participation in sport activities greatly outweighs all other internal factors in the formulation of the organizations' plans since the proportion of organizations that stated that they consider this factor to a "great" or "very great" extent was 89%. Conversely, marketing processes (informational, programming and control systems) bear minimal weight as an internal factor (40.2%). Furthermore, the overall mean of the 15 internal factors ( $3.87 \pm 0.62$ ) is significantly greater than the mean of the 22 external factors ( $3.23 \pm 0.68$ ) (paired t-test,  $t=10.2$ ,  $d.f.=81$ ,  $p<0.01$ ). Consequently

internal factors are more significant in the formulation of the organizations' plans than external factors. At the same time the two means are significantly correlated (Pearson's  $r=0.614$ ,  $p<0.01$ ).

- Insufficient financial resources is considered the major factor that discourages planning, since the proportion of organizations that stated that they regard this factor to a "great" or "very great" extent was 71.6%. Second in order of importance are the inadequate facilities of universities (50.6%).
- The percentage of University Sports Organizations satisfied with athletic performance and staff performance was 62.8% and 58.8% respectively.
- A strategic planning model was constructed for deliberation by university sport organizations, and a presentation was made, analysing its several components.
- The extent of strategic planning used by University Sports Organization members of F.I.S.U. was not related to a) the organizations' model of governance, b) the percentage of students participating in competitions of the university sports organizations to the total number of students engaged in sport activities in higher education, and c) the percentage of the university sports organizations' self-generated revenues as opposed to state funds.

## Introduction

Profit and non-profit organizations almost face the same challenges in recent years. Allison and Kaye (2005) argue that despite the fact that typically, nonprofit organizations represent public interest and for-profit organizations focus on customer satisfaction, quality improvement, and investments in market research; these diverse perspectives have almost converged. Strategic planning may have the same results in both sectors, helping organizations to clarify and settle the most vital issues they confront; to exploit the opportunities and transform the weaknesses and threats to challenges; and therefore to be effective as a whole (J.M.Bryson, 2004). Defined as a way of knowing (J.M.Bryson et al., 2009), strategic planning provides a systemic process to gather information about the big picture (Poister & Streib, 2005), creates a forum of discussion (Allison & Kaye, 2005), delivers integration within an organization (Jarzabkowski & Balogun, 2009), enables futuristic thinking (Poister & Streib, 2005), and challenges the mind (Lake, 2004), to create effective strategies (Gunn & Williams, 2007), as well as to anticipate and respond effectively to new circumstances (Kriemadis, 1992, 1997).

While recent literature is limited in relation to strategic planning in sports, Kriemadis (1992, 1997, 2009) and Earle (2009) conducted studies identifying the use of strategic planning in intercollegiate and/or university athletic departments. In addition, several factors that discourage the respective athletic departments to engage in strategic planning activities have been identified (Kriemadis, 1992, 1997, 2009; Earle, 2009). Kriemadis (1992, 1997, 2009) supports that an evaluation of the extent to which strategic planning is adopted may be useful, in order to classify the athletic departments as "strategic planners" or "non-strategic planners". According to Kriemadis (1997) the "strategic

planners” fulfilled the conditions of “having formalized written, long-range plans; having assessed the external and internal environments; and having established strategies based on departmental mission and objectives” and “non-strategic planners” although some components of strategic planning process may be considered, they are not classified as strategic planners because they either “utilized short-range, written plans of action and budgets for current fiscal period (short-term planners); or they utilized short-range, unwritten plans that are stored in the memories of the athletic department’s administrator’s (intuitive planners); or they did not use any measurable planning procedures” (p.244).

Recent literature reveals strategic planning models that may be implemented in the sports sector. Kriemadis and Theakou (2007), based on the related literature identified the integration of various strategic planning models in public and non-profit organizations, that may be deployed in the sports sector. Furthermore, Kriemadis and Theakou (2007) suggest that sports organizations may develop their own strategic planning model through the selection and integration of various models aligned with organization’s unique needs. Earle (2009) proposed a strategic planning model defining two stages, planning and implementation, and assumed that the strategic planning process is a constant and ongoing process that requires assessment, evaluation and reaction. However, although an assessment and re-examination of strategic issues over time is essential, both pro-activeness and performance measurement are fundamental to ensure the successful implementation of initially selected strategies and the achievement of goals and objectives (Kriemadis, 1992, 1997).

Finally, a strategic planning model proposed by Kriemadis (1992, 1997) concerning the intercollegiate athletics has been identified as a model that may be applied to other sports organizations, as a guide. In addition, despite the limited research in higher education, university sports and sports in general, the literature related to strategic planning in the for-profit and non-profit sector may have implications for university sports organization.

University sports is a multifaceted network which comprises institutional bodies, authorities, stakeholders and shareholders, and interacts with society. Social progress and economic prosperity are an integral part of the actions and interactions of existing and future organizations. If university sports organizations are to be effective and viable, they must plan their actions, analyze the environment they compete in, develop strategies to meet their mission and objectives, and periodically evaluate their progress and performance. Strategic planning may be a pathway that illustrates the means, the motive, and the knowledge needed to reach organizational excellence.

### **Purpose of the study**

The primary purpose of the study is: a) to determine the extent to which the strategic planning process is being used in University Sports Organizations (members of F.I.S.U.); b) to identify the key factors that discourage University Sport Organizations (members of F.I.S.U.) from engaging in strategic planning activities; c) to determine the level of satisfaction of University Sports Organizations’ (members of F.I.S.U) outputs; d) to develop and recommend a generic strategic planning process model, which can be implemented by University Sports Organizations (members of



F.I.S.U.); and e) to examine the relationship between the extent of strategic planning used by University Sports Organizations (members of F.I.S.U.) and these selected variables: (a) the organizations' model of governance (public vs. private vs. cooperative); (b) the percentage of students participating in competitions of the university sports organizations to the total number of students engaged in sport activities in higher education; and (c) the percentage of the university sports organizations self-generated revenues as opposed to state funds.

### **Research Questions**

The research questions to be examined for purpose of this study were as follows:

- What is the extent to which the strategic planning process is being used in University Sports Organizations (members of F.I.S.U.)?
- What are the key factors that discourage University Sports Organizations (members of F.I.S.U.) from engaging in strategic planning activities?
- What is the level of satisfaction of University Sports Organizations' (members of F.I.S.U.) output?
- Is it possible to develop a generic strategic planning process model, which can be implemented by University Sports Organizations (members of F.I.S.U.)?

### **Hypotheses Tested**

- The extent of strategic planning used by University Sports Organizations (members of F.I.S.U.) is independent of the organizations' model of governance (public vs. private vs. cooperative).
- The extent of strategic planning used by University Sports Organizations (members of F.I.S.U.) is independent of the percentage of students participating in competitions of the university sports organizations to the total number of students engaged in sport activities in higher education.
- The extent of strategic planning used by University Sports Organizations (members of F.I.S.U.) is independent of the percentage of self-generated revenues as opposed to state funds.

### **Significance of the Study**

As in the for-profit sector, the changes occurring in the non-profit highlight the necessity to shift towards issues of accountability, building capacity, and organizational performance (Allison & Kaye, 2005). Globalization, technological innovations, continuing increased demands, rapidly changing competitive environments, and knowledge transformation are some of the aspects contemporary organizations are facing.

The core problem of strategic planning is the difficulty in realizing its multi-faceted character, and the need to interrelate different aspects of strategic planning development (Vila & Canales, 2008).

Despite the contribution of current strategic planning literature to both for-profit and non-profit sectors, a gap still exists in the sports sector and above all, in the university sports sector. This highlights the need for such a study, which may constitute the basis for further research in this area.

This study will contribute to heightening the university sports organizations' awareness of the extent to which the strategic planning process is used in this sector, as well as the key factors that may discourage university sports organizations from engaging in a strategic planning process. By providing information and feedback the study will determine the degree of satisfaction concerning the university sports organizations outputs. The study will identify probable pathways to overcome the difficulties encountered during the formulation and implementation of plans. A generic strategic planning process may be developed, to be implemented by University Sports Organizations (members of FISU). Finally, this study may be useful to University Sports Organizations, and to the sport sector as a whole.

## **Research Methods and Procedures**

### **Population**

The population of the study consisted of all 153 University Sports Organizations official members as defined by FISU (International Federation of University Sports)

### **Instrument development**

A questionnaire designed by Thanos Kriemadis has undergone some modification for the requirements of this study. The questionnaire was refined based on the literature review and the suggestions made by a panel of experts and finalized with the assistance of the Associate Professor Thanos Kriemadis, specialized in Strategic Planning.

#### Validity

The content validity of the initial questionnaire was determined by Thanos Kriemadis for the requirements for the degree of "Doctor of Philosophy in Education" (Kriemadis, 1992). A panel of experts' suggestions, in the fields of strategic planning, management and from F.I.S.U. Executive Committee, contributed to the content validity of the modified questionnaire.

#### Instrument Reliability

Given that most of the questions are structured from multiple items answered in a typical Likert scale, factor analysis followed by Cronbach's reliability analysis were employed in a pilot attempt to ascertain the multidimensionality of each construct and the internal consistency of the extracted factors. Factor analysis yielded components (factors) with an eigenvalue greater than one that explains a significant proportion of the total variability. Both the Bartlett's test of sphericity and Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy are considered to examine whether a factor analysis for the particular set of data is applicable. Cronbach's alpha coefficients were used to assess the internal consistency of the constituent items of a factor. With the exception of two

components, all of the extracted factors satisfy Nunnally's (1978) criterion that the internal consistency of the items constituting a factor is considered satisfactory if it is at least equal to 0.700.

#### Data collection

Data collection involved the exclusive use of the questionnaire. The questionnaire was sent by e-mail, post and/or fax. A total of 153 were sent and 82 were completed and returned (53.6%).

#### Data analysis

After the questionnaires were collected, the data from each were entered into the statistical testing program, the Statistical Package for the Social Sciences (SPSS-x), Version 17.0.

Research questions one, two, and three were answered by using standard descriptive statistics including mean, standard deviation, and percentages. Factor analysis attempted to identify underlying variables or factors that explain the pattern of correlations within a set of observed variables. Both the Bartlett's test of sphericity and Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy are considered to examine whether a factor analysis for the particular set of data is applicable. Hypothesis one and three were tested by using chi-square, while hypothesis two was tested by using ANOVA analysis.

### Presentation and Analysis of Data

#### Research Question One

What is the extent to which the strategic planning process is being used in University Sports Organizations members of International University Sports Federation (F.I.S.U.)?

##### Questionnaire Item A

The data from the respondents (see Table 1) indicate that more than 90% of the organizations incorporate into their current planning process the majority of relevant activities. The only activity that is integrated in the current planning process by a significantly smaller proportion of organizations (80.5%) (binomial test,  $p < 0.01$ ) is the one associated with developing long-range plans (or strategies) to achieve the organization's mission and objectives.

Factor analysis yielded two components (factors) with an eigenvalue greater than one that explain 55.2% of the total variability (see Table 2 and Figure 1). The first component is correlated with items 8, 6, 9, 3, 4 and 7, while the second component can be explained by the variability of items 2, 1 and 5.

	Activity	Included	Not included
	<i>Developing the vision (future image of your organization) of the organization's future direction and aspirations</i>	75 (91.5%)	7 (8.5%)
	<i>Developing the mission statement (purpose of your organization's existence) that describes the organization's purpose and philosophy</i>	75 (91.5%)	7 (8.5%)
	<i>Assessing the organization's strengths and weaknesses</i>	80 (97.6%)	2 (2.4%)
	<i>Assessing the organization's opportunities and threats</i>	74 (90.2%)	8 (9.8%)
	<i>Developing the organization's goals and objectives</i>	80 (97.6%)	2 (2.4%)
	<i>Developing long-range plans (or strategies) to achieve organization's mission and objectives</i>	66 (80.5%)	16 (19.5%)
	<i>Developing short-range plans</i>	77 (93.9%)	5 (6.1%)
	<i>Periodically evaluating the performance of the organization's planning process (items #1 to #7 above)*</i>	72 (90.0%)	8 (10.0%)
	<i>Periodically evaluating the organization's performance relative to mission and objectives</i>	75 (91.5%)	7 (8.5%)

Table 1

*Activities Included in the University Sports Organizations' Current Planning Process*

*(Absolute and percentage distribution of activities included in the organizations' current planning process.*

*\* In item 8 there were two missing responses.*

*(The corresponding percentages refer to the number of valid responses.)*

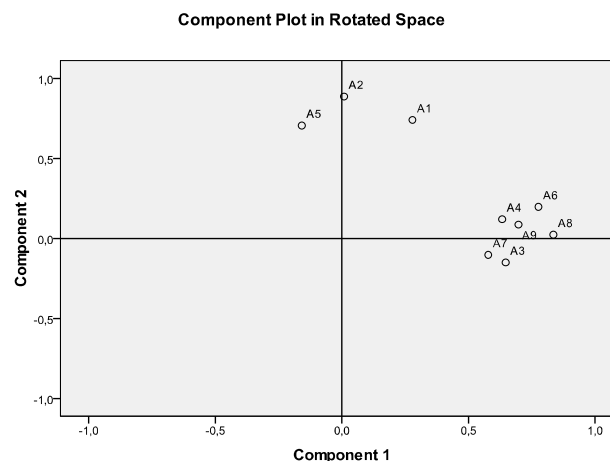


Figure 1

*Sports Organizations' Current Planning Process. Component plot in rotated space for question A.*

Item	Component	
	1	2
A8	0.835	
A6	0.777	
A9	0.698	
A3	0.647	
A4	0.633	
A7	0.578	
A2		0.886
A1		0.740
A5		0.705
Eigenvalue	3.0	1.9
Variance explained	33.8%	21.4%
Cronbach's alpha	0.782	0.676

Table 2

*University Sports Organizations' Current Planning Process*

*Loadings of the original nine variables on the two extracted and rotated factors in question A, eigenvalues, variance explained by the components and internal consistency (Cronbach's alpha) of the items.*

Questionnaire Item E

The data in Table 3 reveal that twenty-nine (36.7 percent) of those University Sport Organizations responding was classified as strategic planners, while fifty (63.3 percent) have not met the criteria necessary to be classified as strategic planners (non-strategic planners). Figure 2 shows the absolute and percentage frequencies of the answers given to question E.

Plans	Frequency	Percentage
Structured long-range plans	29	36.8
Operational plans	39	49.4
Intuitive plans	8	10.1
Unstructured plans	3	3.8

Table 3

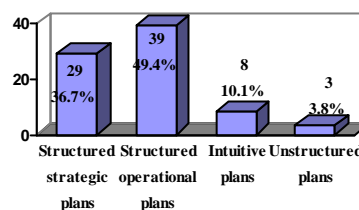
*Level of Planning in University Sports Organizations (members of F.I.S.U.)*

Figure 2

*Absolute and percentage frequencies of the Level of Planning*Questionnaire Item B

Table 4 depicts the means and standard deviations of the scores of the 22 items included in question B. The items are shown in descending order of the means. The repeated measures analysis of variance revealed that there are significant differences between the mean values of the items ( $F_{21,1386}=20.1$ ,  $p<0.001$ ). The external factors that bear the most weight in the formulation of the organizations' plans are N.U.S.F. policies and future trends, educational trends and higher education's policy and strategy. The proportion of organizations that stated that they consider these three factors to a "great" or "very great" extent was more than 70% (see figure 3). Conversely factors, such as religious groups, parents of the student-athletes and entertainment industry are considered to a very small extent (less than 25%). Only one factor was considered to a "very little" or "little" extent by more than 70 percent of university sports organizations (see figure 3).

Item	Description	Mean	SD
9	N.U.S.F. policies and future trends	4.13	0.97
2	Educational trends	3.99	1.08
3	Social trends (values, attitudes)	3.85	0.94
20	Higher Education's policy and strategy	3.76	1.10
15	Competitors (e.g. other sport federations)	3.67	1.20
4	Economic/Tax Considerations	3.64	1.20
19	Board of Trustees (University Administration)	3.60	1.29
8	Community opinion	3.55	1.05
6	State/Federal mandates and guidelines	3.54	1.27
11	Sponsors	3.40	1.35
21	Governmental Health Policy	3.36	1.29
12	Media	3.36	1.00
7	Technology trends	3.34	1.12
18	Spectators	3.25	1.22
5	Demographic trends	3.18	1.28
17	Suppliers (equipment, services)	3.06	1.20
1	Political trends	3.03	1.34
13	Civic organizations	2.87	1.11
10	Small and Medium Enterprises plans	2.85	1.32
16	Entertainment industry	2.63	1.27
22	Parents of the student-athletes	2.52	1.30
14	Religious groups	1.70	1.06

Table 4

*Extent to which external factors are considered in the Planning Process*

(Means and standard deviations of the scores of the 22 items included in question B. The items are shown in descending order of the means)

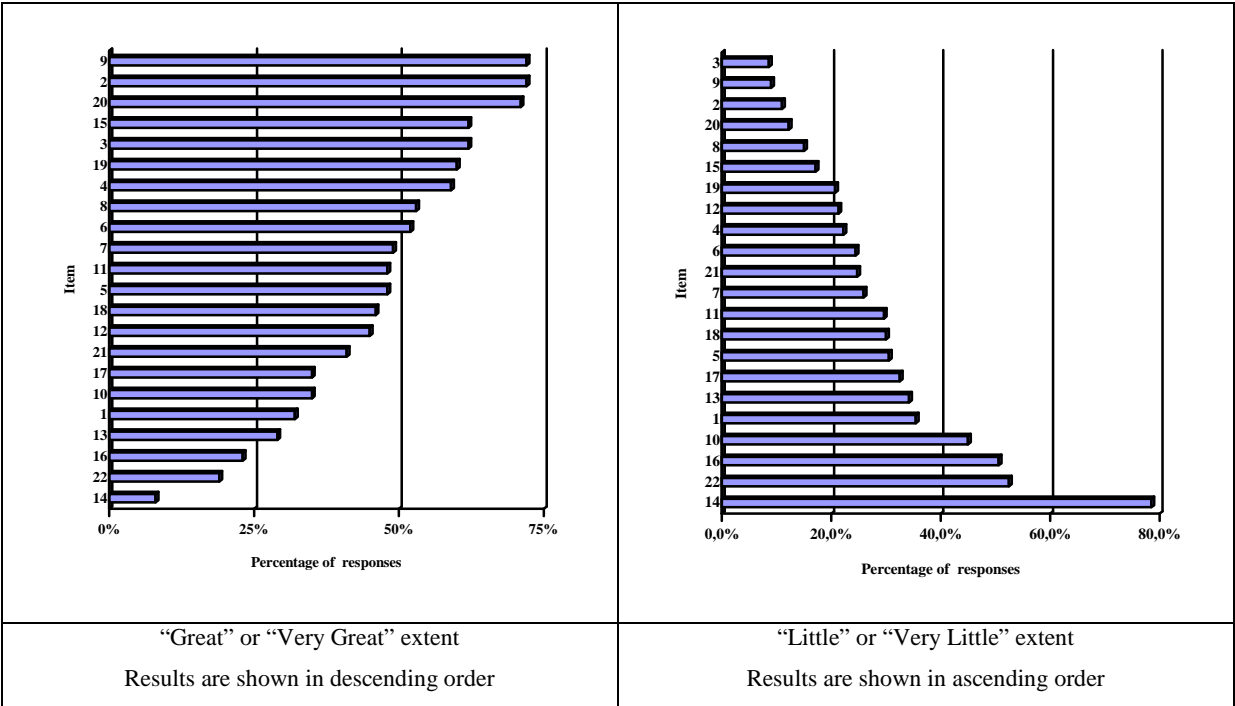


Figure 3  
Extent to which external factors are considered in the planning process  
\*Scaling: 1=Very Little 2=Little 3=Some 4=Great 5=Very Great

Factor analysis yielded six components (factors) with an eigenvalue greater than one that explain 64.4% of the total variability (see table 5).

<i>Component</i>						
<i>Item</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>
<i>B6</i>	0.729					
<i>B1</i>	0.613					
<i>B3</i>	0.591					
<i>B8</i>		0.813				
<i>B18</i>		0.709				
<i>B2</i>		0.518				
<i>B5</i>		0.486				
<i>B12</i>			0.694			
<i>B9</i>			0.660			
<i>B11</i>			0.596			
<i>B7</i>			0.584			
<i>B13</i>			0.579			
<i>B20</i>				0.802		
<i>B19</i>				0.732		
<i>B21</i>				0.685		
<i>B22</i>				0.484		
<i>B15</i>					0.740	
<i>B16</i>					0.657	
<i>B10</i>					0.537	
<i>B17</i>					0.525	
<i>B14</i>						0.733
<i>B4</i>						-0.623
<i>Eigenvalue</i>	2.76	2.63	2.52	2.52	2.23	1.52
<i>Variance explained</i>	12.5%	11.9%	11.5%	11.5%	10.1%	6.9%
<i>Cronbach's alpha</i>	0.590	0.793	0.746	0.789	0.746	-

Table 5

*External factors considered in the planning process*

*Loadings of the original 22 variables on the six extracted and rotated factors in question B, eigenvalues, variance explained by the components and internal consistency (Cronbach's alpha) of the items.*

### Questionnaire Item C

Table 6 depicts the means and standard deviations of the scores of the 15 items included in question C. The repeated measures analysis of variance revealed that there are significant differences between the mean values of the items ( $F_{14,994}=10.1$ ,  $p<0.001$ ).

Student participation in sport activities greatly outweighs all other internal factors in the formulation of the organizations' plans since the proportion of organizations that stated that they consider this factor to a "great" or "very great" extent was 89%. Conversely, marketing processes



(informational, programming and control systems) bear minimal weight as an internal factor (40.2%). There were no items incorporated to a “very little” or “little” extent by 70 percent or more of the university sports organizations (see figure 5).

<i>Item</i>	<i>Description</i>	<i>Mean</i>	<i>SD</i>
2	<i>Student participation in sport activities</i>	4.49	0.75
14	<i>Organizational excellence (quality, effectiveness and efficiency of your organization)</i>	4.17	0.77
1	<i>Athletic performance excellence</i>	4.13	0.89
15	<i>Creativity and innovation (new ideas, empowerment and involvement of the staff)</i>	4.08	0.87
6	<i>Student-athletes' opinion</i>	4.00	0.86
7	<i>Technical delegates' (e.g. coaches', competition officials') opinion</i>	3.97	0.87
3	<i>Financial performance</i>	3.94	0.99
4	<i>Administration staff performance</i>	3.93	0.86
10	<i>Adequacy of facilities</i>	3.89	1.04
8	<i>Technical delegates' (e.g. coaches', competition officials') performance</i>	3.88	0.96
11	<i>Academic schedule</i>	3.83	1.16
9	<i>Athletes' academic achievement</i>	3.79	1.06
13	<i>Training and education of the staff</i>	3.53	1.10
5	<i>Advisory committees</i>	3.43	1.11
12	<i>Marketing processes (informational, programming and control systems)</i>	3.32	0.99

Table 6

*Extent to which internal factors are considered in the planning process*

*Means and standard deviations of the scores of the 15 items included in question C. The items are shown in descending order of the means.*

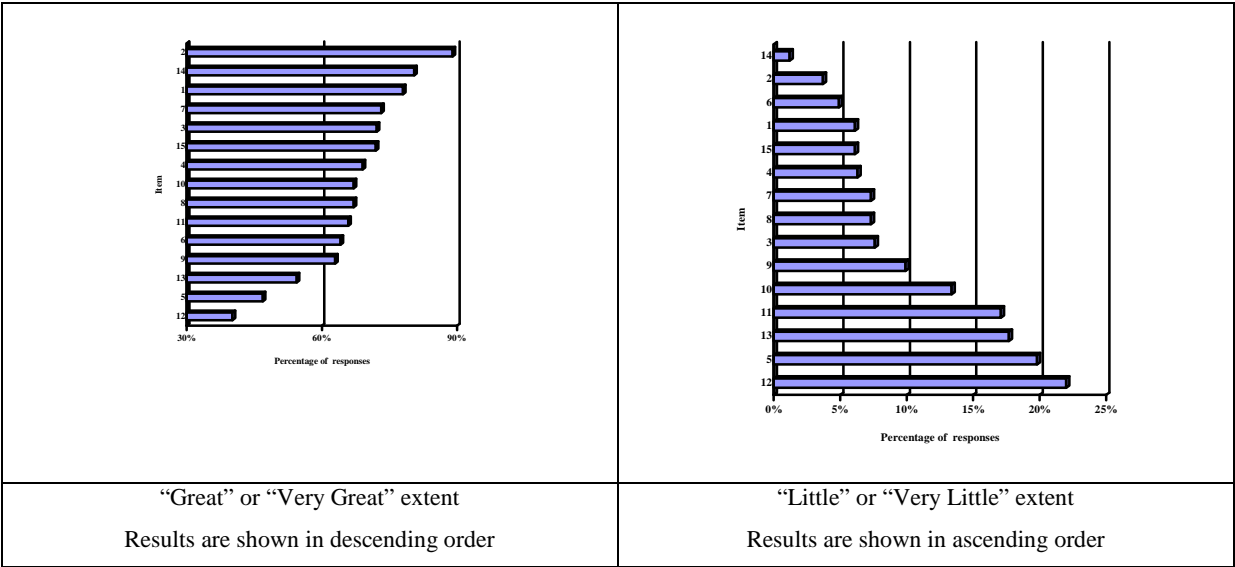


Figure 5  
Extent to which internal factors are considered in the planning process  
\*Scaling: 1=Very Little 2=Little 3=Some 4=Great 5=Very Great

Furthermore, the overall mean of the 15 internal factors ( $3.87\pm0.62$ ) is significantly greater than the mean of the 22 external factors ( $3.23\pm0.68$ ) (paired t-test,  $t=10.2$ , d.f.=81,  $p<0.01$ ). Consequently internal factors are more significant in the formulation of the organizations’ plans than external factors. At the same time the two means are significantly correlated (Pearson’s  $r=0.614$ ,  $p<0.01$ ).

Factor analysis yielded four components (factors) with an eigenvalue greater than one that explain 62.8% of the total variability (see table 7).

Item	Component			
	1	2	3	4
C5	0.803			
C7	0.793			
C8	0.701			
C14	0.589			
C4	0.546			
C2		0.826		
C6		0.628		
C10		0.582		
C9			0.798	
C11			0.692	
C12			0.614	
C13			0.558	
C1				0.737
C3				0.649
C15				0.471
<i>Eigenvalue</i>	2.96	2.29	2.25	1.92
<i>Variance explained</i>	19.7%	15.2%	15.0%	12.8%
<i>Cronbach's alpha</i>	0.824	0.702	0.740	0.575

Table 7

*Internal factors considered in the planning process*

*Loadings of the original 15 variables on the four extracted and rotated factors in question C, eigenvalues, variance explained by the components and internal consistency (Cronbach's alpha) of the items.*

### Questionnaire Item F

Table 8 depicts the means and standard deviations of the scores of the 7 items included in question F. The repeated measures ANOVA showed that the mean values of the responses are not equal ( $F_{6,456}=21.7$ ,  $p<0.01$ ). Financial and Event Management plans are the two items that are incorporated to a greater extent than all the other plans, since the proportion of organizations that stated that they consider these factors to a "great" or "very great" extent was 72.9% and 72.6% respectively. There were no items incorporated to a "very little" or "little" extent by 70 percent or more of the university sports organizations (see figure 6).

The 7 items of question F were subjected to factor analysis using the principal components approach with a subsequent varimax rotation of the extracted components. Both the Bartlett's test of sphericity ( $\chi^2=190.3$ , d.f.=21,  $p<0.01$ ) and Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (0.821) indicate that a factor analysis is appropriate. However, the factor analysis did not yield more than one factors.

Item	Description	Mean	SD
3	Financial plan	3.90	1.06
7	Event Management plan	3.84	1.15
4	Human Resources plan	3.40	1.15
6	Quality management plan	3.31	1.25
5	Contingency plan	2.99	1.06
2	Facilities master plan	2.84	1.20
1	Marketing plan	2.75	1.11

Table 8

Extent to which the university sports organizations incorporate the following items

The items are shown in descending order of the means.

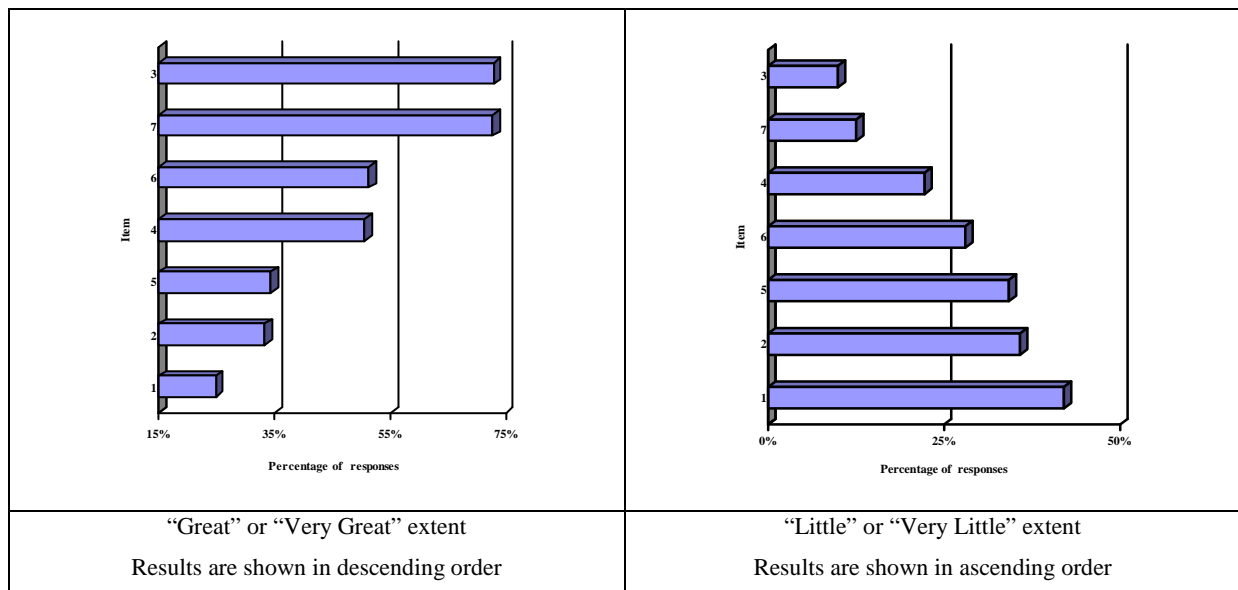


Figure 6

Extent to which university sports organizations incorporate the following items

\*Scaling: 1=Very Little 2=Little 3=Some 4=Great 5=Very Great

In addition this study provides evidence (see that long –range plans and strategies (Item A6) have a significant relationship with the following short-range plans (Item F): a) quality management plan; b) contingency plan; and c) marketing plan (independent samples t-test,  $t=2.31, 2.46, 2.69$  respectively,  $df=80, p<0.05$ ).

Item	Description	Response to item A6		t-value (df=80)	p-value
		Yes	No		
3	Financial plan	3.88±1.14	3.88±0.89	0.006	0.995
7	Event Management plan	3.95±1.06	3.44±1.32	1.66	0.102
4	Human Resources plan	3.49±1.13	2.88±1.09	1.97	0.053
6	Quality management plan	3.47±1.27	2.69±0.95	2.31	0.023
5	Contingency plan	3.12±1.11	2.36±0.75	2.46	0.016
2	Facilities master plan	2.94±1.25	2.44±1.15	1.46	0.149
1	Marketing plan	2.91±1.15	2.07±0.80	2.69	0.009

Table 9

Comparison between Item A6 and Questionnaire Item F

Means and standard deviations for each of the seven items in question F depending on whether the organizations were developing long-range plans (or strategies) to achieve their mission and objectives. Comparisons between the two groups with the t-test.

### Questionnaire Item G

According to the survey responses (see figure 7), fifty (50%) of the responding university sports organizations utilize short-range plans which cover up to one year; fifteen (20%) cover approximately two years; and nine cover more than two years. Consequently, eight missing values were found concerning short-range plans. When it comes to the number of years that long-range plans cover, twenty-two (31%) of the responding organizations indicate that they cover up to three years; thirty-seven (52%) cover between four and five years; and twelve (17%) cover more than five years. Eleven university sports organizations have not answered this item.

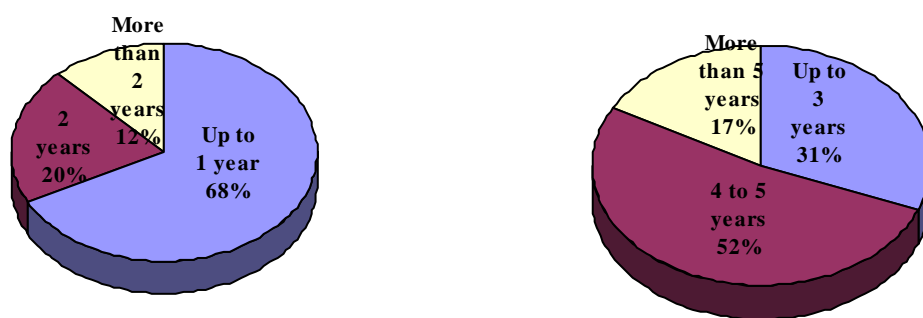


Figure 7

Percentage distribution of the number of years covered by short-range and long-range plans.  
(The corresponding percentages refer to the number of valid responses).

### Questionnaire Item H

According to the findings (see figure 8), twenty-four (34%) of the responding university sports organizations have been engaged in long-range planning for approximately three years; twenty-seven (39%) have been engaged between four to ten years; and nineteen (27%) have established long-range plans for more than ten years. Twelve university sports organizations have not responded to this item.

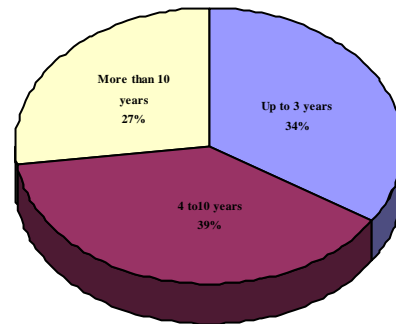


Figure 8

*Percentage distribution of the numbers of years university sports organizations have been engaged in long-range planning  
(The corresponding percentages refer to the number of valid responses).*

#### Questionnaire Item I

The findings indicate the following: a) twenty-nine university sports organizations measure the performance of short-term plans quarterly, b) twenty organizations semi-annually, c) twenty-eight organizations annually, and d) sixteen organizations when a problem is evident (see Figure 9)

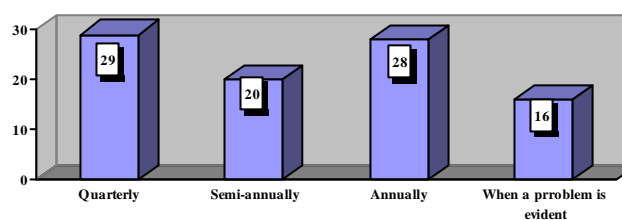


Figure 9

*Performance measurement relative to short-range plans  
(a percentage of 15.9 indicated more than one items)*

#### Questionnaire Item I

Results reveal the following (see Figure 10): a) forty-seven organizations measure the performance of long-range strategies annually, b) twelve biennially, c) eleven semi-annually, d) nine when a problem is evident, and e) four organizations never evaluate their plans.

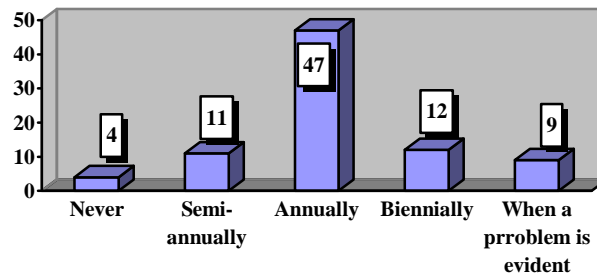


Figure 10

*Performance measurement relative to long-range plans  
(a percentage of 4.9 indicated more than one items).*

#### Questionnaire Item K

The findings show (see Figure 11) that only 31 organizations (37.8%) have a formal planning committee.

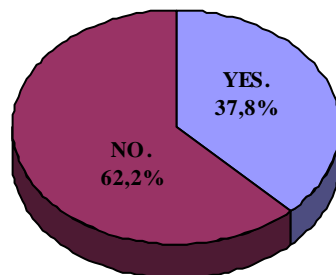


Figure 11

*Existence of a formal planning committee in university sports organizations (members of F.I.S.U.)*

#### Questionnaire Item L

The data displayed in Figure 12 reveal that among the 51 university sports organizations that do not have a formal committee, 28 stated that they plan to establish one within the next two years.

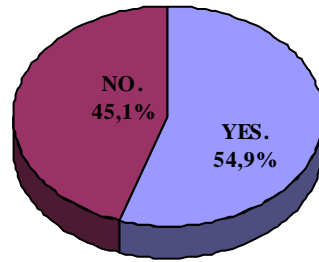


Figure 12

*Establish a planning committee within the next two years*

### Research Question Two

What are the key factors that discourage University Sports Organizations members of F.I.S.U. from engaging in strategic planning activities?

#### Questionnaire Item D

Table 10 depicts the means and standard deviations of the scores of the 11 items included in question D. The items are shown in descending order of the means. The repeated measures analysis of variance revealed that there are significant differences between the mean values of the items ( $F_{10,730}=14.1$ ,  $p<0.001$ ). Figure show that insufficient financial resources is the major factor that discourages planning, since the proportion of organizations which stated that they consider this factor to a “great” or “very great” extent was 71.6%. Second in order of importance is the inadequate facilities of universities (50.6%). There were no items that discourage university sports organizations to a “little” or “very little” extent form engaging in strategic planning by more than 70 percent (see figure 13).

Item	Description	Mean	SD
6	Insufficient financial resources	3.84	1.31
7	Inadequate facilities of universities	3.38	1.38
8	Conflict between athletic and academic time schedule	3.18	1.34
5	Insufficient time	3.00	1.29
2	Lack of adequate communication / collaboration within the organization.	2.76	1.19
3	Lack of adequate communication / collaboration between organization and F.I.S.U.	2.76	1.37
1	Insufficient training and experience in planning procedures	2.70	1.21
9	Lack of a planning policy	2.59	1.19
11	Organizational culture gap between F.I.S.U. and organization	2.59	1.37
4	Resistance to planning by the staff	2.50	1.30
10	Planning is not valued by organization's Board members	2.49	1.34

Table 10

*Factors that discourage strategic planning in university sports organizations*

*The items are shown in descending order of the means.*



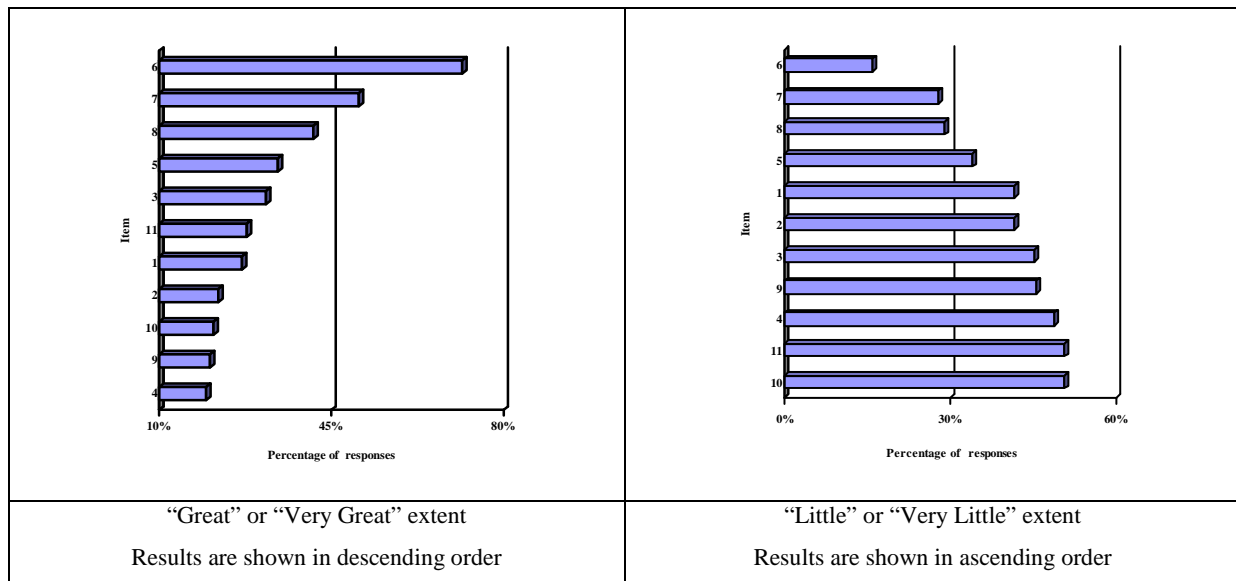


Figure 12

*Factors that discourage strategic planning in university sports organizations*

*\*Scaling: 1=Very Little 2=Little 3=Some 4=Great 5=Very Great*

Factor analysis yielded three components (factors) with an eigenvalue greater than one that explain 72.9% of the total variability (see table 11).

Item	Component		
	1	2	3
D10	0.856		
D9	0.810		
D4	0.721		
D11	0.717		
D8	0.553		
D1		0.874	
D2		0.829	
D3		0.578	
D6			0.901
D7			0.808
D5			0.550
Eigenvalue	3.4	2.4	2.2
Variance explained	31.3%	21.5%	20.1%
Cronbach's alpha	0.879	0.810	0.752

Table 11

*Factors that discourage strategic planning in university sports organizations*

*Loadings of the original 11 variables on the three extracted and rotated factors in question D, eigenvalues, variance explained by the components and internal consistency (Cronbach's alpha) of the items.*

### Research Question Three

What is the level of satisfaction of University Sports Organizations' members of International University Sports Federation (F.I.S.U.) output?

#### Questionnaire Item W

Table 12 depicts the means and standard deviations of the scores of the 14 items included in question W. The repeated measures ANOVA showed that the mean values of the responses are not equal ( $F_{13,923}=10.1$ ,  $p<0.01$ ).

The percentage of University Sports Organizations satisfied with athletic performance and staff performance was 62.8% and 58.8% respectively. No consensus higher than these figures were achieved for any factor. Attendance of students participating in the international competitions and meetings (39.2%) and financial performance (38.8%) are the two factors that university sports organizations reported to be satisfied with to a "little" or "very little" extent (see figure 13).

<i>Item</i>	<i>Description</i>	<i>Mean</i>	<i>SD</i>
4	<i>Athletic performance</i>	3.69	0.82
3	<i>Staff performance</i>	3.68	0.90
14	<i>Consistency in social responsibility</i>	3.61	0.93
8	<i>Communication with the F.I.S.U. members</i>	3.57	1.14
2	<i>Staff abilities and skills</i>	3.57	1.04
5	<i>Technical delegates'(e.g. coaches', competition officials') performance</i>	3.56	0.73
12	<i>Organizational culture open to new ideas</i>	3.54	1.02
13	<i>Organizational sustainability and flexibility</i>	3.42	1.00
11	<i>Creativity and innovation of staff</i>	3.39	0.91
10	<i>Quality of services delivered</i>	3.32	0.96
6	<i>Number of student participating in competitions of your organization</i>	3.29	0.94
7	<i>Attendance of students participating in the international competitions and meetings</i>	2.94	1.17
9	<i>Adequacy of facilities</i>	2.92	1.07
1	<i>Financial performance</i>	2.81	1.19

Table 12

*Level of satisfaction of university sports organizations' output*

*The items are shown in descending order of the means.*

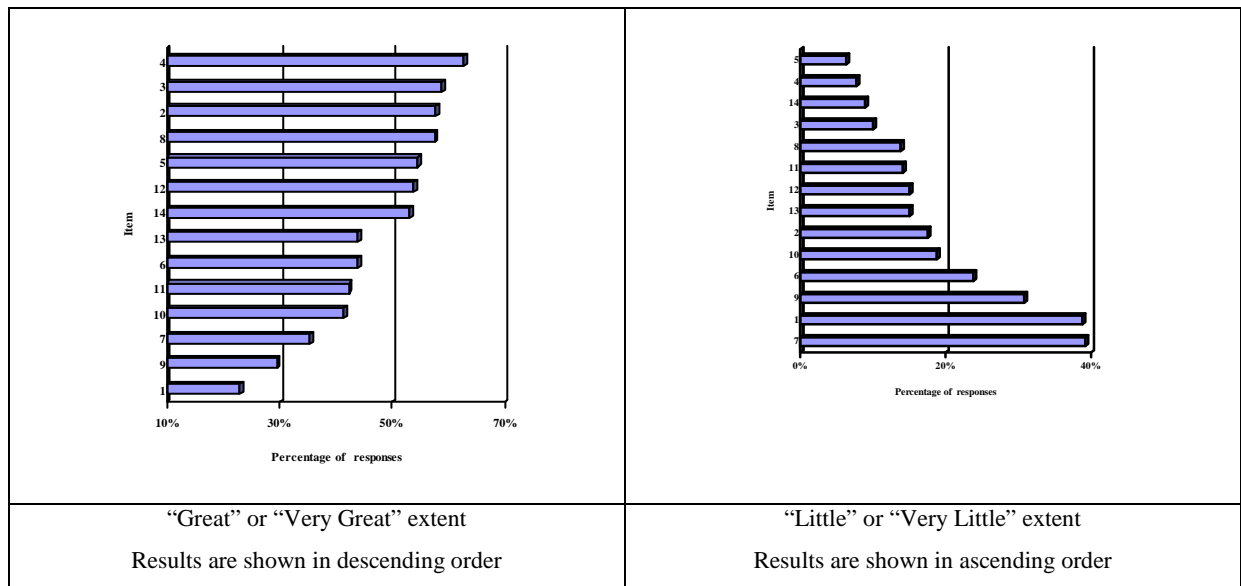


Figure 13

*Level of satisfaction of university sports organizations' output*

*\*Scaling: 1=Very Little 2=Little 3=Some 4=Great 5=Very Great*

Factor analysis yielded four components (factors) with an eigenvalue greater than one that explain 71.3% of the total variability (see table 13).

Item	Component			
	1	2	3	4
W3	0.852			
W2	0.796			
W11	0.764			
W14		0.877		
W12		0.817		
W13		0.815		
W1			0.784	
W6			0.762	
W9			0.666	
W10			0.554	
W7	0.458		0.476	0.475
W5				0.706
W8				0.695
W4				0.644
<b>Eigenvalue</b>	<b>2.88</b>	<b>2.81</b>	<b>2.38</b>	<b>1.90</b>
<b>Variance explained</b>	<b>20.6%</b>	<b>20.1%</b>	<b>17.0%</b>	<b>13.6%</b>
<b>Cronbach's alpha</b>	<b>0.885</b>	<b>0.893</b>	<b>0.811</b>	<b>0.585</b>

Table 13

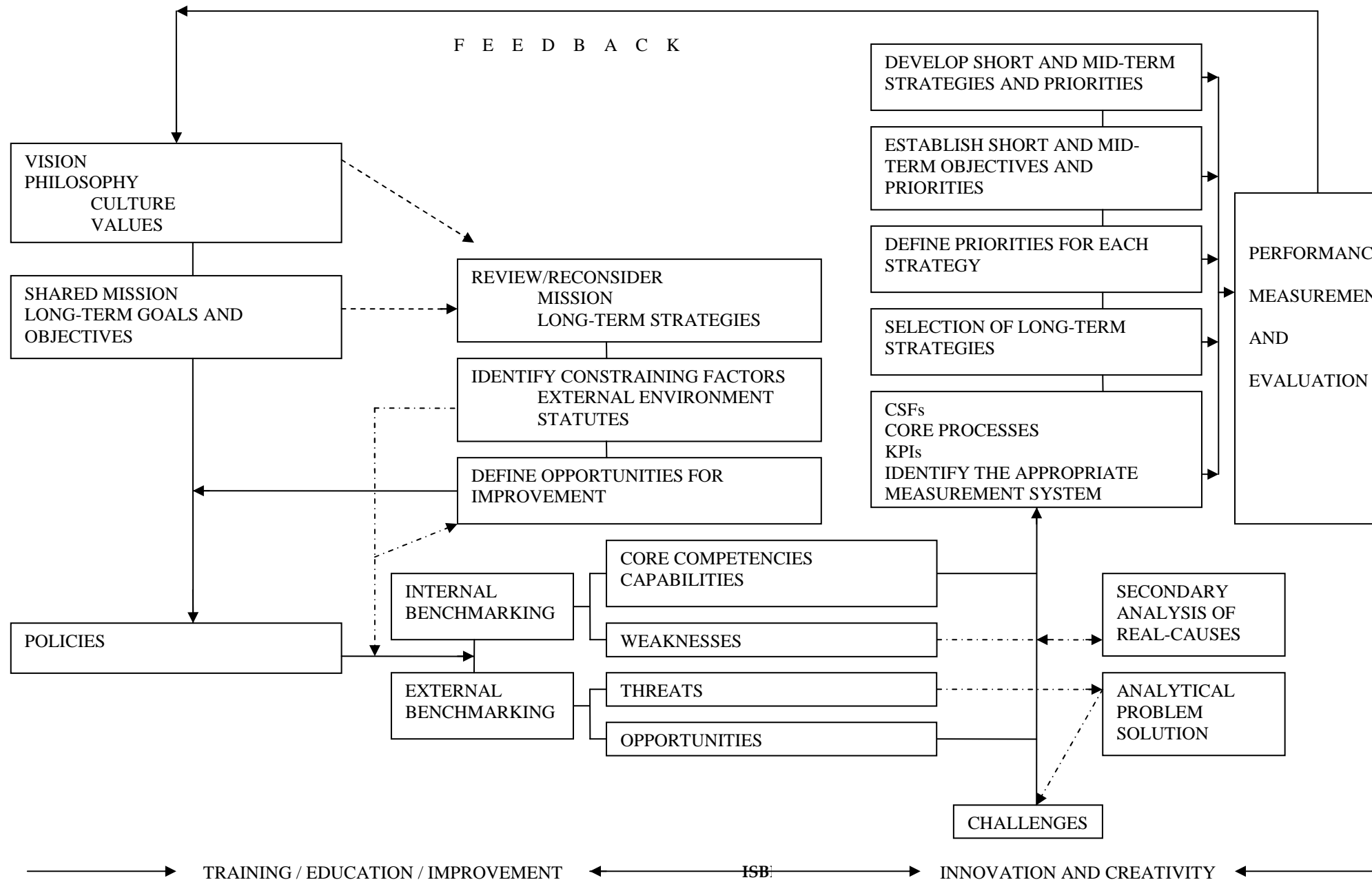
*Level of satisfaction of university sports organizations' output*

*Loadings of the original 14 variables on the four extracted and rotated factors in question W, eigenvalues, variance explained by the components and internal consistency (Cronbach's alpha) of the items.*

**Research Question Four**

Is it possible to develop a generic strategic planning model, which can be implemented by University Sports Organizations members of F.I.S.U.?

The strategic planning process model developed by the researcher is presented in Figure 19. An analysis of several steps involved in the strategic planning process follows.





## Hypothesis Tested

1. The extent of strategic planning used by University Sports Organizations (members of F.I.S.U.) is independent of the organizations' model of governance (public vs. private vs. cooperative).

*E \* S Crosstabulation*

			S				Total
			1	2	3	4	
E	1	Count	15	5	3	5	28
		% within E	53,6%	17,9%	10,7%	17,9%	100,0%
	2	Count	20	9	6	4	39
		% within E	51,3%	23,1%	15,4%	10,3%	100,0%
	3	Count	5	2	1	0	8
		% within E	62,5%	25,0%	12,5%	,0%	100,0%
	4	Count	2	1	0	0	3
		% within E	66,7%	33,3%	,0%	,0%	100,0%
Total	Count	42	17	10	9	78	
	% within E	53,8%	21,8%	12,8%	11,5%	100,0%	

*Chi-Square Tests*

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3,676 <sup>a</sup>	9	,931
Likelihood Ratio	5,160	9	,820
Linear-by-Linear Association	1,435	1	,231
N of Valid Cases	78		

a. 11 cells (68.8%) have expected count less than 5. The minimum expected count is .35.

Table 14

*Cross-tabulation and Chi-square analysis of the extent of strategic planning and university sports organizations model of governance.*

The data was analyzed by using Chi-square. The results indicated that the university sports organizations' model of governance is independent of their level of planning (see Table 14).

For the descriptive part of questionnaire item S, see Figure 15.

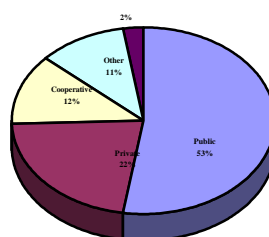


Figure 15

*Percentage of university sports organizations model of governance*

2. The extent of strategic planning used by University Sports Organizations (members of F.I.S.U.) is independent of the percentage of students participating in competitions of the university sports organizations to the total number of students engaged in sport activities in higher education.

*Descriptives*

*rat2009=U/T*

E	N	Mean	SD	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
1	19	,4335	,40983	,09402	,2359	,6310	,01	1,00
2	29	,3571	,32539	,06042	,2333	,4809	,01	1,00
3	5	,4068	,44518	,19909	-,1459	,9596	,04	1,00
4	2	,1750	,10607	,07500	-,7780	1,1280	,10	,25
Total	55	,3814	,35872	,04837	,2844	,4783	,01	1,00

*ANOVA*

*rat2009*

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	,157	3	,052	,393	,758
Within Groups	6,792	51	,133		
Total	6,949	54			

Table 15

*Anova analysis of the extent of strategic planning and the ratio of the Questionnaire Items "U" to "T".  
(the analysis refers to the fiscal year 2009)*

The Anova analysis showed that the two variables were not significantly related (see Table 15). For the descriptive part of this item see Figure 16.

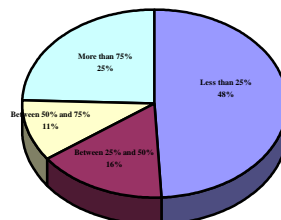


Figure 16

*Percentage distribution of the ratio number of students participating in competitions of the university sports organization to the total number engaged in sports activities in higher education  
\*year 2009 (in percentage form)*



3. The extent of strategic planning used by University Sports Organizations (members of F.I.S.U.) is independent of the percentage of the university sports organizations' self-generated revenues as opposed to state funds.

Self-generated revenues in fiscal year 2009	Level of planning				Total
	Structured strategic	Structured operational	Intuitive	Unstructured	
None or missing	13 44,8%	9 31,0%	5 17,2%	2 6,9%	29 100,0%
1%-25%	7 26,9%	16 61,5%	2 7,7%	1 3,8%	26 100,0%
26%-25%	5 41,7%	6 50,0%	1 8,3%	0 ,0%	12 100,0%
>50%	4 33,3%	8 66,7%	0 ,0%	0 ,0%	12 100,0%
Total	29 36,7%	39 49,4%	8 10,1%	3 3,8%	79 100,0%

*Chi-Square Tests*

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9,300 <sup>a</sup>	9	,410
Likelihood Ratio	11,250	9	,259
Linear-by-Linear Association	,851	1	,356
N of Valid Cases	79		

a. 10 cells (62.5%) have expected count less than 5. The minimum expected count is .46.

Table 16

*Chi-square analysis of the extent of strategic planning and the percentage of self-generated revenues as opposed to state funds*

*(the analysis refers to fiscal year 2009)*

*\* 17 missing values (20.7%).*

The results demonstrated that there was no significant relationship between the extent of strategic planning used by university sports organizations and the percentage of the organizations' self-generated revenues as opposed to state funds (see Table 16).

For the descriptive part of the questionnaire item M2009 see Figure 17.

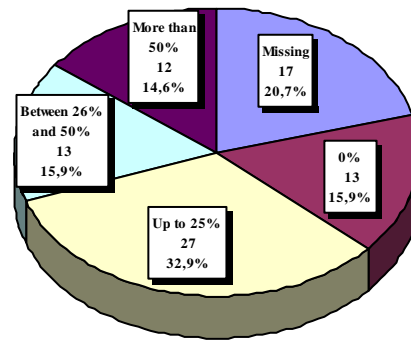


Figure 17

*Self-generated revenues as opposed to state funds*

\*mean=27,32

\*\*Std.Dev.=29,365

\*\*\*valid=65

\*\*\*\*missing values=17 (20.7%)

## Discussion, Implications and Recommendations

More than 90 percent of the organizations indicated that they have integrated in strategic planning, activities such as vision, mission, goals and objectives, short-term strategies, and evaluation procedures. The only activity that is integrated in the current planning process by a significantly smaller proportion of organizations (80.5 percent) is the one associated with developing long-range plans (or strategies) to achieve the organization's mission and objectives. However, only 36.7 percent of University Sports Organizations reported that they developed structured strategic plans while a percentage of 49.5 deployed structured operational plans. It may be assumed that the organizations that engaged in structured strategic plans may be classified as strategic planners since they met the criteria of: a) having developed formalized written, long-range plans; b) having assessed the internal and external environment; c) having developed strategies to meet organization's mission and objectives; and d) evaluating past, current, and future performance. The related literature reinforces this position, identifying that the "written and unwritten plans" are factors which can be used as measure indicators of formality (O'Regan & Ghobadian, 2007). In addition, formal written strategic plan may achieve better results (i.e. Mintzberg, 2000; Kraus et al., 2006; O'Regan & Ghobadian, 2007; Ghobadian et al., 2008; Kaplan & Norton, 2008b). Moreover, a structured strategic planning process is based on the assessment of the internal and external environment (e.g. De Witt & Meyer, 2004; J.M.Bryson & Alston, 2005; Wilson & Gilligan, 2005; Dincer et al., 2006; Black et al., 2007; Kaplan & Norton, 2008; Keller, 2008; Linn, 2008; Porter, 2008; Vila & Canales, 2008; Valkano et al. 2009); and development of long-range strategies to meet the mission, the goals and objectives (e.g. Allison & Kaye, 2005; J.M.Bryson & Alston, 2005; Dincer et al., 2006; O'Regan & Ghobadian, 2007).

Consequently, a majority of University Sports Organizations (63.3 percent) were identified as non-strategic planners. Even though they have developed some plans and actions they were excluded because their planning efforts were restricted to one of the following: a) they have developed written, short-range operational budgets and plans of action for the current fiscal period; b) they have developed and implemented informal short-range plans based on intuition and previous experience; or c) they have not involved any measurable structured planning procedures.

2. Twenty-two of the responding university sports organizations stated that they develop long-range plans within a three year perspective, and thirty-seven cover between four and five years. Only twelve organizations cover more than five years, while there seem to be differing opinions about the years the short-range plans should cover. In addition, 13.4 and 11 percent respectively have not responded to subjects related to long and short range plans. A possible reason could be that these organizations do not utilize short or/and long range plans or they are relatively new organizations.

University sports organizations must realize that they have to develop short-, mid-, and long-range plans. These findings may lead to the following observations: a) short-range plans are needed to achieve and assess the progress of the organizations' long term goals and objectives, b) given that university sports organizations are so deeply associated with academic institutions, mid-range plans are needed to develop strategies that will not take longer than the election cycle, c) to achieve the purpose of an organization's existence and translate the organization's future image into achievable, realizable and tenable plans, a long-term scope in the development of strategies is fundamental. Short-term strategies need to be associated with all management functions to support organizations' overall strategy. Moreover, given that university sports organizations may be affected by non-university factors the organizations must realize the importance of the development of contingency plans in order to anticipate the impact of powerful stakeholders and a rapidly changing external environment.

3. Based on the fact that insufficient financial resources and inadequate facilities are the most weighted factors that discourage planning, organizations should acknowledge management techniques which help to identify the secondary causes of a problem. Weaknesses may be turned into opportunities, mapping out decisions and actions necessary.

4. Higher educations' policy and trends are one of the external factors that prevail when formulating planning, while insufficient financial resources and inadequate facilities of universities are the most weighted factors that discourage planning. Therefore, it seems that university sports organizations before formulating a strategic planning process must assess the opportunities and challenges which may arise from the collaboration with academic institutions, as well as the higher education institutions' philosophy, policies, and commitment to a common purpose.

5. The findings show that university sports organizations depend in the majority on external funding, which suggests that these organizations may not be able to develop their own competencies to accomplish their mission and objectives.

6. The level of satisfaction related to both the attendance of students participating in international competitions and meetings, and the number of students participating in competitions of university sports organizations appears to be very low, since only a small percentage of the respondents stated that they are satisfied to a “great” or “very great” extent. This may be attributed to the fact that university sports organizations may lack the necessary financial or other tangible resources i.e. facilities, means to offer programs. Confirming the above, only 41.3 percent stated they were satisfied to a “great” or “very great” extent by the quality of services delivered.

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In addition, the model of governance may reveal information about the way organizations are funded. Cooperative and private organizations seem to be more capable of having self-generated revenues than public organizations that typically are financially supported by the state subsidies. The study indicated that there was no significant relationship between the organizations’ model of governance and the extent of strategic planning utilized by the organizations. It should also be noted that approximately 21 percent have not stated their financial information, which constrains inferences. University sports organizations may have not answered because of the lack of such information (structured data) or because of the lack of experience in financial estimations.

Findings of the study indicate that the factors that constrain to a “great” or “very great” extent strategic planning by a percentage less than 25 percent were: a) resistance to planning by staff, b) lack of planning policy, planning is not valued by organization’s Board members, and c) lack of adequate communication / collaboration within the organization. Follow-up studies should be done to the same sample within the next five years to identify possible changes in the application of the entire strategic planning process.

With regards to recommendations for further study, the authors recommend the following:

Research needs to be done to the same population (University Sports Organization members of F.I.S.U.) to assess qualitatively the extent of strategic planning. There are three

primary means of qualitative data collection a) observation, b) interviews, and c) examining documents (Tenenbaum & Driscoll, 2005). Interviews and observation issues would concentrate on (1) the classification of data used in planning, (2) the quality and management tools that are encountered, (3) membership of the planning committee and specific roles in planning, (4) the type and philosophy of leadership that may influence an organization's attitude toward strategic planning, (5) the unique status quo and (6) individual factors affecting each university sport organization. Examining documents would rigorously assess issues of implementation, identifying the consistency of these documents to organizations' strategic issues and priorities. This study may also assist in identifying best practices that can be used as a model for the university sports sector.

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## MEASURING BOARD INTERNATIONALIZATION: CULTURAL DISTANCE: A REASONABLE VARIABLE OR NOT?

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### Abstract

The subject of this article is the use of the Board Index to increase the complexity of the Board of Directors. For this the frequency of board members between countries like Cultural Distance should be determined as a result, that is, the example market selection of the GLOBE-study as sole indicator. Cultural Distance (PD) proved to be a good index. A combination of Cultural Distance and the Index of Economic Freedom (IEF) provided comparably good results. The Psychic Distance Index (PDI) provided the basis of the

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**Keywords:** International  
Management, Cultural Distance

e, International

### Introduction

The leaders of the global business environment. The relevant level. It is not easy to handle this challenge. The example of W. D. German market implies, that the business environment is both dynamic and complex. In this case the Informal competition

W.  
inter

an increasingly global business environment. Companies have reached a level of internationalization that is able to handle this challenge. It can be taken from the example of W. D. German market that they failed to enter the market due to customer demands. This is a challenge for international business. It is generally complex in nature, i.e. it requires resources to handle this challenge. Capacity which makes the company's international posture. Business clearly refers to the team's performance (W. D., 2009).

level of internationalization and TMT. It is not easy to measure internationality. This

is in particular true for TMT's level of internationalization. Which methods are acceptable? It seems to be an unanswered question, but the presented methods in literature to measure the degree of internationalization do not exist. The lack of methods leads to an additional question: How can we measure the internationality? In literature, the dimensions of International Education, International Linkage or Financial Internationality are an often named dimension is the *Multinationality* (MN) which is defined as the nationality of the board of directors (IE). Multinationality for example is defined as the ratio of foreigners in the context of the board of directors. "... a Norwegian member of the board is more international than a Japanese member" (Grønmo, 2004, p. 10). How could we compare respectively weight in the context of internationalization? How could we compare experiences in different contexts? How could we compare experiences in different contexts?

The contribution of this article is:

- First, the author presents a framework how they overlap and interact.
- Second, based on the framework, measures are developed for Internationality, Multinationality and board internationality.

Therefore, the aim of this article is exemplary for Multinationality and Internationality as cited dimensions.

The literature regarding the research of different weighting factors in this, the hypothesis of this section, the findings from this section will be given.

## Literature

In order to examine individual indicators or group indicators, three important approaches will be discussed.

First, the author presents a framework

which distance measures are developed for Internationality (MN) and Multinationality, respectively, of

different weighting factors (IE) as two very often

of the research outcome and describes in part two the International Experience. Following the methodology described. Referring to the findings discussed and compared with the literature, a recommendation for future research

to examine individual indicators or group indicators, three important approaches will be discussed.

The first possibility is typology. We talk about typology if indicators are combined differently without concentrating the companies in a few categories. The objective is to describe the differences between enterprises. Typology is used to refer to the typology of Bartlett and Ghoshal (Bartlett and Ghoshal, 1985). These studies in different enterprises, the authors distinguish between the domestic, the international, the multinational, the global and the transnational. The typology approach goes back to Perlmutter (Perlmutter, 1969) who introduced the concept as a dimension. It assumes that the internationality of an enterprise can be measured by quantifiable indicators like foreign sales, foreign assets, foreign employees, etc. According to the typology, enterprises are classified into different categories depending on the number of indicators. Hence, the typology is a classification of enterprises based on the development of international structures and strategies (Bartlett and Ghoshal, 1985). Other relevant typologies suggest a classification of enterprises based on the character of an international enterprise (Johanson and Wiedersheim-Paul, 1975).

The second possibility is the classification of enterprises into different categories of assessing the internationality of enterprises. This approach classifies enterprises into different categories merges them in different categories in order to compare them. This approach is based on the use of multiple items or concepts. They reach for a classification of enterprises based on multiple items or concepts to total assets with different information content. This approach is based on the use of multiple items or concepts can in turn lead to different classifications (Berghe, 2003, p. 312). In literature the Transnationality Index (UNCTAD, 1995, p. 10) or the Degree of Internationalization (DGI) (Gillies, 1998, pp. 16 et seqq.) or the Degree of Internationalization (DOI) (Sullivan, 1996, pp. 180 et seqq.) are used.

The third possibility is the comparison of internationalization profiles. This approach compares two enterprises with each other. Hederer and Schmid (Hederer and Schmid, 2003) illustrate the internationalization profiles of two enterprises. Schmid (Schmid, 2003) shows a profile character (Hassel et al., 2003) who have been presented for illustration. A number of approaches has been selected for illustration.

Moreover, the firm internationalization - is mainly based on the degree of multinationality,

international experience, international network ties, foreign language proficiency and cultural differentiation (Gregoric et al., 2009, pp. 10-11). Others like Schmid and Kretschmer (2005) completed the list of characteristics with international education (Schmid and Kretschmer, 2005, pp. 7 et seq.):

- *Multinationality*: Based on the definition of multinationality, we can be defined in terms of nationality results from behaviour of a person. T which he or she spent tl (1998, pp. 183 et seqq.)”.
- *International Linkage*: as board appointment, which (2001) the knowledg o reflect the international orient
- *Foreign Language*: skills are in a better position t (Gregoric et al., 2009, pp. 78)
- *Cultural Distar*: differences of the board memb an member of the supervisory member than a Japanese member” (‘
- *Internatio*: members spent a long time ab 1998) in their national charact happen. The experience could education period and in profe on is, that operationalizing of ir s and is partly inconsistent. An al experience is in literature th d internationalization, but the r s still open. Due to the results n detail in an additional part of

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at the explanatory power of both internationalization – depend among International Experience” of board

How important the nationality of members could be seen in the following statement of Laurent (1991): "When the patterns of demand are analyzed, variations in responses could be partly explained by characteristics such as age, sex, job, professional experience, hierarchical level, and company size." This suggests that the nationality of the respondents emerged as a more important factor in the data than any of the respondents' other characteristics.

Hambrick et al. (1998) concluded that an individual's psychological attributes are important accompaniments of one's native behaviour (demeanour) and language.

- Values: Hofstede definiert „national states of affairs over others“ individualism vs. collectivism
- Cognitive schema: „...what one knows about the world“ (Hambrick et al., 1998, pp. 185) events and alternative affects besides the nationality and interpretation of new context
- Physical behavior: conversational style or interruption
- Language: the first language, it affects a person's behavior, e.g. Europeans often use more formal and polite characters (Hambrick et al., 1998, pp. 185)

In summary, schema, physical stimuli (Hartfield) is the selection. For by the U informat Manager they w count dem bet

ity affects values, cognitive behaviour in response to task decisions in the international managers is an obvious key for the psychic distance, which was defined as "something disturbing the flows of information" (Viedersheim-Paul, 1975, pp. 308). "The more they can get to know most easily and directly" (Russett, 2007, pp. 74). In other words, the differences. No doubt, this example is very close to the countries. Therefore, the distance between the countries, background, respectively, and those

countries he is evaluating for possible market entries seems to be an important factor. However, the question which elements are relevant in terms of properly conceptualizing that distance remains.

The **second part** of the literature review deals with the dimension "Multinationality (MN)" as well as the role of factors like Schmid and Daniel (2006) have defined. They analyze the nationality of board members for 100 TMT of German MNCs they processed. The nationality of Germans is 0, while foreigners are 1. But as we have learned, e.g. from the literature, that different countries equally even if the cultural distance is before. However, this increasing complexity leads to possible contortions induced by unweighed factors.

In the literature we could find the concept of *Psychic Distance (PD)*. A definition is given by Brewer (2007) in his recent work. For him, PD plays a central role in the international business context. *Psychic Distance (PD)* is defined as the perceived international business distance. It is the central or even the most important factor. It seems to be, that both the individual (business or country) and the context of the difference

Unfortunately, the concept of *Psychic Distance (PD)* and the ability to process information (Experience (IE)) should be processed and Cultural Distance (CD) between three dimensions (1988):

- CD

CD

construct of *Psychic Distance (PD)* offers Brewer a central role in the international business context. *Psychic Distance (PD)* is defined as the perceived international business distance. It is the central or even the most important factor. It seems to be, that both the individual (business or country) and the context of the difference

distance on the one hand and the Multinationality (MN) or Internationalization (I) literature. In the following section, we will analyze *Psychic Distance (PD)* and *Cultural Distance (CD)*. It should be distinguished between the Kogut and Singh-Index and the Hofstede-Index.

dimensions of Hofstede (1980). The *Cultural Distance Index*, developed by Kogut and Singh (1991, pp. 422):

$CD_{IE}$  = Culture Difference for intern. Experience IE;  
 $I_{ij}$  = Index of the cultural dimension I in the foreign country j;  
 $I_{ih}$  = Index of the cultural dimension in the home country;  
 $\sigma_i^2$  = Variance of the indices of dimension i

This kind of merger, however, is not a simple aggregation of the data (Hofstede, 1988) solutions and considering that in spite of this, Hofstede's index currently has a broad application (Levina and Liden, 2006). This index has been used by many authors in the literature. The majority of 66 reviewed sample articles used Hofstede as the only one indicator to establish Cultural Difference. These results suggest that cultural dimensions shall be used only when only a limited data set is available (www.geert-hofstede.com)

- CDB: This measure was developed by Bond (1988). Authors call it "Long-Term-Oriented" (LTO).
- CDC: The third dimension of Hofstede's model is "Global Leadership Practices" (GLP) developed by Schwartz (1992). It is based on Schwartz's (1992) Avoidance of Uncertainty, Egalitarianism, and Power (pp. 30). It is a measure of societal values.

The Psychic Distance Scale (PDS) measures the perceived distance between countries. For

- PD: The PDS is a scale that measures the perceived distance between countries. It is based on the PDS (House et al., 2004).

of the most common. The index of Hofstede's cultural dimensions (p. 5). To establish Hofstede's cultural dimensions as there is a homepage. (www.geert-hofstede.com)

Hofstede and his research project (GLOBE) and by Hofstede (1980), distance, Uncertainty, assertiveness, Gender (House et al., 2004, Zimbabwe and from 10

the nine cultural dimensions. The research project (GLOBE) and by Hofstede (1980), distance, Uncertainty, assertiveness, Gender (House et al., 2004, Zimbabwe and from 10

few of distances between

-Index, but in contrast to the difference in language, religion, and culture (Dow and Ferencikova, 2007). Hofstede index is only a narrow measure to use "...a much broader range of factors in language, religion, industrial structure, and culture (Dow and Ferencikova 2007, pp. 5). Authors who "...argue that specific home country plausible explanatory factors for internationalization (Farthing, 2004, pp. 75). In order to test the index on the one hand and their newly



developed Psychic Distance Index (PDI) on the other hand the authors tested both indices separately in the context of investments market selection. The key findings are that the Hofstede's index is not statistically significant in contrast to the newly developed PDI. The authors conclude that the PDI is a better measuring and operational tool for international business research, we believe that the PDI should be used to move beyond simply inserting Hofstede's index into their models. They have adequately controlled for the effects of the Hofstede's index (p. 17, pp. 13).

- PDI: Based on the assumption that the distance between countries is a function of the cultural distance, Brewer (2007) developed this new index for Psychic Distance. It is a better measure than measures used by expert panels or surveys' indicators like corruption, trade agreements, political ties (e.g. trade agreements), geographic proximity, cultural ties (e.g. trade agreements), stock (e.g. immigration), level of corruption, and the foreign policy journal. (Brewer, 2007) on the relationship between international market distance and market familiarity, existing or familiarity, in turn, depends on a number of factors between the countries.

As a result of the study, the authors conclude that the PDI is a better measure in the context of investments market selection. On the other hand, the authors tested both indices separately in the context of investments market selection. The key findings are that the Hofstede's index is not statistically significant in contrast to the newly developed PDI. The authors conclude that the PDI is a better measuring and operational tool for international business research, we believe that the PDI should be used to move beyond simply inserting Hofstede's index into their models. They have adequately controlled for the effects of the Hofstede's index (p. 17, pp. 13).

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## Hypothesis Development

Based on the above mentioned reference, we propose that the question of measuring the differences between countries and Psychic Distance (PD). For the price and „International Experience“ (IE) will turn up which of the distances represent and Larimo (2007) found out, that the traditional Hofstede-based scale, yet the impact of psychic distance on entry line with the result of Brewer's Distance and market selection theory. Australian exporters to a country ...and the value of its culture r

Our first hypothesis developed and conceptualized as Kogut and

**Hypothesis 1:** The Kogut dimensions of Hofstede's Psychic Distance (PD) will

The second hypothesis is considerably more presented above, it

**Hypothesis 2:** The dimensions of Hofstede's multiple regression

**Hypothesis 3:** The dimensions of Hofstede's variable

We term

that the question of Distance (CD) (N) ion Dow s the tentia nis is in Psychic number of a is -0,796 07, pp. 86)".

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Cultural Distance with the nine and not significantly with the

erally are of rather low relevance in

**Hypothesis 3:** The bivariate correlation between the variable „Market Selection (AE)“ and the different forms of recording “Cultural Distance” (CD<sub>A</sub>, CD<sub>B</sub>, CD<sub>CB</sub>, CD<sub>CV</sub>) is always small and not significant.

While the first part of the analysis focuses on the cultural distance, in the second we will examine what it means for companies to have. In this connection it shall be investigated whether it can be used as a substitute for the respective distance. This would make such an index a good indicator for studies which face the challenge of applying a distance index with limited cost. In this connection, out of the different indices, we have selected which reflect “Business Distance” and “Psychic Distance” (Brewer, 2007, pp. 79). Two studies

- *Index of Economic Freedom* (Street Journal score) – a measure to labor freedom

- *Global Competitiveness Index* – to assess the competitiveness. The index is a composite of enhancers (e.g. innovation, infrastructure, etc.)

The following index is opposed to pure distance

**Hypothesis 4:** The variable „Market Selection (AE)“ and the variable „Cultural Distance“ (GCI, is high) is always small and not significant.

## Metho

To investigate the applicability of the Psychic Distance Index in the analysis we go back to the study of the Index (PD<sub>E</sub>) using as an example the

res, products, and as a Board studies, limited, could be as”. In the cultural aspect.

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Forum (2010) tries to improve the prosperity to the citizens. The index is a composite of enhancers (e.g. innovation, infrastructure, etc.)

oriented measures – as

„Market Selection (AE)“ and „Cultural Distance“ (GCI, is high) is always small and not significant.

the analysis to the data set of a study. The applicability of the Psychic Distance Index in the behavior of Slovakian managers in the analysis we go back to the study of the Index (PD<sub>E</sub>) using as an example the



the GLOBE-study is included, which only considers 62 societies, the number of considered countries is reduced to 20 countries of which data were available, because of the problem of intersection of both samples. To avoid this problem, a matching method, a bivariate correlation is used (see appendix).

## Results

The results for the first part of the analysis for the 10 countries a corrected  $R^2$  of 0.544 was obtained, which with comparable values for the variable  $CD_{CV}$ . In consideration a comparison seen in the results for the 10 countries. The results for the control data set 3 the corrected  $R^2$  is 0.544, which is respectively  $CD_{CV}$  provides a highly significant result (approximately significant ( $p = 0.000$ )).

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on model:

	<i>Data set</i>
<i>Description</i>	<i>Data set count/ signi</i>
<i>Model</i>	
<i>Variants</i>	<i>with</i>
<i>POP_In</i>	<i>0</i>
<i>Dist_In</i>	
<i>GDP_pc_1000</i>	
<i>CDA (Hof)*</i>	
<i>CDCB</i>	
<i>CDCV</i>	
<i>PDD (PDDX)*</i>	
<i>Adj R2</i>	
<i>F</i>	
<i>p</i>	
<i>Source</i>	

	Dataset 4
	Data set for 49 countries / significance
	1
	with CDCB / CDCV
	0.288 / ***
	-0.297 / **
	0.031 / ***
i.	0.023 / n.s.
	0.001 / n.s.
	0.305 / n.s.(0.073)
j)/*	
28	0,516
i.76	9.533
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calculations	Own calculations

1 to 4

To re  
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at could characterize the Business /  
 Index of Economic Freedom (EF) and  
 4. The control variables are removed,  
 sample the GDP, which are enclosed in  
 ment Factor also contains the GDP per

Capita (Dow and Karunaratna, 2006, pp 588). Below, as a first step, the explanatory contribution of the cultural aspects, using the model presented in Table 1, is determined. After that, the differences concerning Business / Economic Development are determined. Then, possible combinations are analyzed, that consider the cultural aspects. The following table provides an outline of the results:

	<i>Data set 5</i>
<i>Description</i>	<i>Data set for 49 countries / significance</i>
<i>Model</i>	<i>1</i>
<i>Variants</i>	<i>Only culture</i>
<i>CD<sub>A</sub></i>	<i>0.019 / n.s.</i>
<i>CD<sub>CB</sub></i>	<i>0.249 / n.s.</i>
<i>CD<sub>CV</sub></i>	<i>0.083 / n.s.</i>
<i>PD<sub>D</sub></i>	
<i>EF</i>	
<i>GCI</i>	
<i>Adj R<sup>2</sup></i>	
<i>F</i>	
<i>p</i>	
<i>Source</i>	<i>C</i>

	<i>Data set 8</i>
<i>Description</i>	<i>Data set for 49 countries / significance</i>
<i>Model</i>	<i>1</i>
<i>Variants</i>	<i>Culture / Business &amp; Economic / PD<sub>D</sub></i>
<i>CD<sub>A</sub></i>	<i>-0.074 / n.s.</i>
<i>CD<sub>CB</sub></i>	<i>0.065 / n.s.</i>
<i>CD<sub>CV</sub></i>	<i>0.262 / n.s.</i>
<i>PD<sub>D</sub></i>	<i>-0.259 / *</i>
<i>EF</i>	<i>-0.035 / n.s. (0.07)</i>
<i>GCI</i>	<i>0.991 / **</i>
<i>Adj R<sup>2</sup></i>	<b><i>0.296</i></b>
<i>F</i>	<i>4.362</i>
<i>p</i>	<i>0.002</i>
<i>Source</i>	<i>Own calculations</i>

The results of the second part of the analysis are shown in the table below:

		Correlations								
	Person Correlation	AE	CD_A	CD_B	CD_CB	CD_CV	PD_D	PD_E	EF	GCI
AE		1								
		20								
CD_A			1							
CD										

relation  
ation

PD_E	N									
	Pearson Correlation Sig. (2-tailed)		0	20						
EF	Pearson Correlation Sig. (2-tailed)		,562**	-0,334	-0,28	0,298	-,562**	-,630**	-,441**	-,421**
	N		20	20	20	20	20	20	20	20
GCI	Pearson Correlation Sig. (2-tailed)		0,354	-0,191	-0,174	-0,21	-,562**	-,630**	-,441**	-,421**
	N		20	20	20	20	20	20	20	20

\*\* . Correlation is significant at the 0.01 level (2-tailed).  
\* . Correlation is significant at the 0.05 level (2-tailed).

The analysis provides a very significant, high correlation between the variables AE and PDE with  $r = -0.776^{**}$ , as already determined by the regression analysis. Further, for all Cultural Distances  $CD_A$ ,  $CD_B$ ,  $CD_{CB}$  and  $CD_{CV}$  only small and not significant correlations were determined, which are all not significant. For the variable EF a moderate correlation was determined.

## Discussion

With regard to the hypotheses, the

- **Hypothesis 1** By applying

reduced to 20, in the series of countries, there doesn't exist a significant correlation between the  $CD_A$ -Index that are reduced to 20 countries and the expected, a very significant correlation. The analysis of 25 countries was also not significant. Dow and Karunarathne (2007) has, as a result of the reduction of the index provided, a more informative value of the hypothesis.

Further support for this hypothesis is provided by the results of the analysis. It could be seen that the correlation was also not significant. The correlation of PDE in data set 3 of the analysis and these results were to be confirmed. Dow and Ferencsik (2007) confirmed these results to be a subset of the 82 countries.

- **Hypothesis 2**

the Kc index in the series of countries, there is no significant correlation between the  $CD_{CV}$ -Index and the expected, a very significant correlation. The analysis of 25 countries was also not significant. Dow and Karunarathne (2007) has, as a result of the reduction of the index provided, a more informative value of the hypothesis.

- **Hypothesis 3**

the Kc index in the series of countries, there is no significant correlation between the  $CD_{CB}$ -Index and the expected, a very significant correlation. The analysis of 25 countries was also not significant. Dow and Karunarathne (2007) has, as a result of the reduction of the index provided, a more informative value of the hypothesis.

reduced to 20, in the series of countries, there doesn't exist a significant correlation between the  $CD_A$ -Index that are reduced to 20 countries and the expected, a very significant correlation. The analysis of 25 countries was also not significant. Dow and Karunarathne (2007) has, as a result of the reduction of the index provided, a more informative value of the hypothesis.

reduced to 20, in the series of countries, there doesn't exist a significant correlation between the  $CD_B$ -Index that are reduced to 20 countries and the expected, a very significant correlation. The analysis of 25 countries was also not significant. Dow and Karunarathne (2007) has, as a result of the reduction of the index provided, a more informative value of the hypothesis.

reduced to 20, in the series of countries, there doesn't exist a significant correlation between the  $CD_{CB}$ -Index that are reduced to 20 countries and the expected, a very significant correlation. The analysis of 25 countries was also not significant. Dow and Karunarathne (2007) has, as a result of the reduction of the index provided, a more informative value of the hypothesis.

reduced to 20, in the series of countries, there doesn't exist a significant correlation between the  $CD_{CV}$ -Index and the expected, a very significant correlation. The analysis of 25 countries was also not significant. Dow and Karunarathne (2007) has, as a result of the reduction of the index provided, a more informative value of the hypothesis.

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compared to  $PD_E$  by Brewer (2007) with a value of  $r = 0.776^{**}$ , which is highly significant. In this respect, the hypothesis is confirmed.

- **Hypothesis 4:** The existing results show that the variable GCI is very respectful of the hypothesis. This variable provides an explanatory power of 3% as a significant contribution can be observed in the regression set 8. A nearly significant explanatory power of 8% for  $PD_D$  with  $R^2 = 0.082$  is still observed as confirmed.

Also in the second part of the analysis, a significant relationship between EF and  $PD_E$  with  $r = 0.562^{**}$  exists, since the hypothesis is confirmed. However, this relationship is only significant in a regression set 8. This relationship can be considered as confirmed, as it is significant at the 5% significance level in both parts of the analysis.

## Conclusion and Implications

The results above permit:

- The Cultural Intelligence (CQ) dimensions, as well as the limited control over the environment conceived by Ferencikova (2006) and the basis of cultural intelligence, provides only a partial explanation. This can be compared as well as Dow and Ferencikova's contributions.
- The Psychic Distance (PD) according to Dow and Ferencikova (2007) and the explanatory contributions of variables for the market are significant but only of marginal importance.
- The Cultural Intelligence (CQ) and the Freedom (EF) or the Global Competence (GC) contribute to the variables for the Psychic Distance according to Dow and Ferencikova (2007) shows, that overlaps between the "Level of development" at the beginning of the industrial revolution (Dow and Ferencikova, 2006, pp. 582) and the „Efficiency of both economic indicators are significant in the regression models while the hypothesis is confirmed. This phenomenon surely deserves

to be analyzed in more depth. In general, the question arises if part indices don't form a more sensible alternative to the total indices, aggregated on a high level like the construct *Psychic Distance*. There is some need for further research.

In summary it can be established that the comprehensive, complex construct of *Cultural Distance* (CD) is rather to be conceived as its „Sole Indicator“. The economic significance of the *Psychic Distance* (PD). It plays a central role (Brewer (2007) presented further dimensions of the *Psychic Distance* (PD). The *Psychic Distance* (PD) achieves a value of  $r = 0.562^{**}$  as part of the index, as with the *Psychic Distance* (PD).

In relation to the determination of the *Psychic Distance* (PD) on the one hand, the *Psychic Distance* (PD) index dimensions in the *Board-Index* demonstrate an effort-reduction as for example the *Effort-Reduction* (EF) or *Cultural Distance* (CD) a weighting for „Multination“ dimension „Multination“ *Cultural Distance* (CD) more profession-oriented shows the *Business/Finance* (B/F).

However, here it is not substantiated but the application of the *Psychic Distance* (PD) but a more comprehensive dimensions of the *Psychic Distance* (PD) only, but at the same time.

### Limitation

The analysis of the *Psychic Distance* (PD) (2006/2007) new data.

As one of the major market players, whether in the *Psychic Distance* (PD) or in the *Psychic Distance* (PD) aspect requires future research.

to be analyzed in more depth. In general, the question arises if part indices don't form a more sensible alternative to the total indices, aggregated on a high level like the construct *Psychic Distance*. There is some need for further research.

came up, if the weighting of all part indices don't have a normative value, as could provide. For example the *Psychic Distance* (PD) is easier to determine as well as with the *Psychic Distance* (PD) EF, as this rather managers operate.

alternative of a quest for a more comprehensive, however, that the sole coefficient is unsuitable, making the weighting of the *Psychic Distance* (PD) is not the

mentioned studies by Dow et al. further studies that are based on the results above.

of minor relevance with respect to the *Psychic Distance* (PD). This raises the question of direct investments – are in most cases cultural elements are rather regarded as a *Psychic Distance* (PD) aspect requires future research.

## Biography

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## DOES LIFESTYLE INFLUENCE RETAIL BANKING CHANNEL SELECTION? - EVIDENCE FROM INDIA

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### Abstract

Previous Banking channel studies have not considered lifestyle as influencing variables. This empirical study attempts to study the psychographics of channel selection by including lifestyle variables that are assumed to influence the banking channel selection. Further it was also important to check if the psychographics differed geographically and if so, this knowledge could be used by banks to design their offerings appropriately. The banking channels considered in this study are branch banking, Automated Teller machines (ATM), Internet banking and Telephone Banking. This empirical research was conducted in the State of Karnataka in India by studying retail banking customers aged between 18 and 42 years. Karnataka was studied as two different geographic regions. Tests were conducted with and without lifestyle variables across different geographic regions of Karnataka. Using Exploratory Factor analysis and Confirmatory Factor Analysis, the psychographics could be studied as distinct groups (segments) of variables and the segments differed across the two geographic regions in terms of their compositions thereby pointing towards the need for differentiated channel service offerings by banks. Hence this research sets a need for banks to differentiate their offerings based on different psychographic segments found across different geographic region in the same state of a country. This research could be extended to other states of India to get a country wide perspective. More relevant lifestyle variables could be explored in depth and be included to further the scope of this study.

**Keywords:** Retail Banking, Banking Channel, Branch Banking, Internet Banking, ATM (Automated teller Machine), Telephone Banking, Psychographics, Lifestyle, Exploratory Factor Analysis, Confirmatory factor Analysis, India.

### Introduction

Research studies encompassing selection of banks, the banking channels and banking products have focused on variables that are of importance to customers. The studies have brought out the importance of variables like convenience, safety, control and attitude towards technology. It is also not expected from customers belonging to similar demographic profiles

to exhibit similar pre disposition towards banking services and this is predominantly due to the difference in their psychographics profile.

Emanuel Demby (1989), the acknowledged Father of Psychographics has provided a three level definition of psychographics.

Generally, psychographics may be viewed as the practical application of the behavioral and social sciences to marketing research.

More specifically, psychographics is a quantitative research procedure that is indicated when demographic, socio-economic and user/non –user analyses are not sufficient to explain and predict consumer behavior.

Most specifically, psychographics seeks to describe the human characteristics of consumers that may have a bearing on their response to products, packaging, advertising and public relations efforts. Such variables may span a spectrum from self – concept and lifestyle to attitudes, interests, opinions, as well as perceptions of product themselves.

Gunter and Furnham (1992) claim that lifestyle consist primarily of activities (A), interests (I) and opinions (O) and AIO is used interchangeably with Psychographics which means that lifestyle can be used interchangeably with Psychographics. Hence from the description of Psychographics from Demby, Gunter and Furnham, the subject of psychographics encompasses the study of attitudes, activities, Interests, opinions along with self concept. Attitude is a psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor. (Eagly and Chaiken 1993). An Interest in some object, event or topic is the degree of excitement that accompanies both special and continuing attention of it (Gunter and Furnham 1992). An Opinion is a verbal or a written ‘answer’ that a person gives in response to a stimulus in which some ‘question’ is raised. It is used to describe interpretations, expectations and evaluations – such as beliefs about the intentions of other people, anticipations concerning future events, and appraisals of the rewarding or punishing consequences of alternative courses of action (Gunter and Furnham 1992). Lifestyle is defined as patterns in which people live and spend their time and money. (Gunter and Furnham 1992). Activity is a manifest action such as viewing a medium, shopping in a store, or telling a neighbor about a new service (Gunter and Furnham 1992). Research encompassing the selection criteria has predominantly focused on measuring the attitude towards variables of importance. Activities like shopping, traveling could also influence channel selection and usage behavior for e.g. a person who travels extensively may prefer to use ATM (Automated Teller Machine), Internet or Tele banking over a branch because of the convenience of access. A shopper may prefer to a credit card while shopping and later on transfer money through internet to pay for the credit card dues. Likewise Lifestyle and activities can also influence banking channel selection behavior. Banking channel choice and selection studies in retail banking have not considered lifestyle and activities as influencing variables and research in

this area is scant. Plummer (1974) states that lifestyle when combined with demographics gives a richer picture about consumers for better marketing and communication.

India is emerging as a strong economic powerhouse and is currently witnessing rapid strides in the areas of software services, business process outsourcing, knowledge process outsourcing, contract design and manufacturing, retail and banking and financial services to name a few. Supporting most of the economic activities have been the ubiquitous banking and financial services, which has registered an impressive growth rate in terms of advances and net profits. The retail banking credit has been around Rupees 35,83,000 crores in the year 2005-06<sup>45</sup>. Hand in hand with the economic growth, India has also witnessed a great change in the needs, wants and aspirations of the people. India has a mix of people from various economic strata, various age groups, from various states within the country, people from various states settling down in each of the states driven by job and business prospects (for e.g. Tamil Nadu, Karnataka, Maharashtra and many other states having a mix of people from various states living in their respective regions), people having different levels of access and exposure to education, health services and technology, more number of women assuming important role in the economy by obtaining better education levels, having financially rewarding occupations, and the growing youth population with higher aspirations about life. The banks are always in search of answers as to how to provide better products and services to the Indian population. Should it be based on age groups or should it be based on geographic regions? Should it be based on gender or on education and income levels? Would it be safe to assume that people with similar levels of income or similar levels of education, or similar age groups be provided the same kind of products and services? Are the banking needs same across the above mentioned segments? Or would people having similar income levels want different products and services?

The research addresses examines the prospects of combining lifestyle variables with the already identified variables of importance in banking channel selection.

### **Evidence from Literature**

The channels of retail banking in India are Branch banking, Automated teller Machines, Internet Banking and Telephone Banking. ATM, Internet banking and telephone banking have been classified as electronic banking channels in this study.

This research primarily aims at studying the attitudes, interests, opinions and lifestyles related to banking that influences a customer's channel choice. This study also aims to check if the inclusion of lifestyle variables has any influence on channel choice.

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<sup>45</sup> Source: [www.researchandmarkets.com/reports/363217/indian\\_retail\\_banking\\_2006.pdf](http://www.researchandmarkets.com/reports/363217/indian_retail_banking_2006.pdf)

The Literature survey contains four sections. Section one comprises of research studying customers' preference for branch banking and its antecedents. Section two brings out the customer's preference for Electronic banking channels. Section three studies the general lifestyle attributes of customers and their segmentation based on the lifestyle. The specific studies wherein certain specific lifestyle variables that are assumed to have an influence on banking channel preference are selected.

### **Branch Banking Studies**

Durkin et al. (2003) compared the customers' perceptions towards e-channels with perceptions towards branch banking. The study revealed that customers placed more importance on face-to-face contact that is available in branch banking than on remote banking. The usage of remote channels are influenced by complexity of use, a preference for human interaction, and perceived attendant risks.

Finnish banking customers valued social contacts with the banking personnel, distance to a nearest branch office, as selection criteria. Karjaluoto (2002) conducted this study.

### **Studies on Electronic banking**

A study of three of the banking self service technologies was done by Curran and Meuter (2005) and it focused on examining the factors influencing the consumers attitudes towards, and adoption of the above mentioned self service technologies. Four antecedent beliefs were used as predictors of attitude towards a particular SST. They are Ease of use, usefulness, Need for interaction and risk. The analysis was done by using structural equation modeling and ease of use was the most critical factor apart from the other mentioned in the adoption of a particular SST. This study brings out the importance of convenience. Word of mouth from an innovator (the early entrant) also played an important role in adoption of a SST by an early majority as per a study conducted by Prendergast (1993).

Chow et al. (2005) studied the factors that influenced the customers' adoption of the four major banking channels in Hong Kong namely branch banking, internet banking, ATM and telephone banking. The findings revealed that ATM was the most frequently adopted banking channel followed by internet banking and branch banking and Telephone banking was the least preferred. The factors used in the study are Ease of use, Transaction security, Transaction accuracy, speediness, convenience, time utility, provision of different personal services, social desirability, usefulness, economic benefits and user involvement.

Clemes and Gan (2006) studied the factors influencing the adoption of electronic channels in New Zealand. The results from logistic regression show that there is a negative influence of perceived risk factors like financial, performance, physical, social and psychological risk over the adoption of electronic banking channels. There is a positive influence between service quality and user input factors like control, intention to use and enjoyment and adoption of electronic channels. Convenience, service, technology, computers, change, knowledge about



methods of assessing money, and confidence in using electronic channels were used to segment the customers and it was possible to identify dominant customer segments based on above mentioned attitudes. Thornton and White (2001) conducted the study in Australia.

Rugimbana (1995) stated that convenience, ease of use and compatibility, were the most significant predictors of ATM usage in his study on ATM users and non-users in Australia.

Internet banking customers were segmented based on seven dimensions namely convenience, security, status, auxiliary features for managing personal finances, investments, and exploration. Maenpaa (2006) conducted this study on Finnish population. Ndubisi and Sinti (2006) studied the importance of Attitude towards constructs such as importance of Internet banking to customer's banking needs, compatibility, complexity, trialability, and risk to internet banking adoption. The relationship between consumer innovativeness, personal characteristics, and online banking adoption as researched by Lassar et al. (2005). The results specified that there existed a positive relationship between internet innovativeness and online banking adoption whereas there was a negative relationship between general innovativeness and online banking adoption.

### **Studies on Lifestyle**

The concept of lifestyle studies that includes Activities, Interests and opinions have been widely studied and one of the important research studies by Plummer (1974) states that lifestyle when combined with demographics gives a much richer picture about a consumers for better marketing and communication.

Tao Sun et al. (2004) compares US, UK, Chinese and Japanese consumers based on their generic buying behavior which placed more emphasis on psychographic and lifestyle variables like consumption of brands, travel and attitudes like financial optimism, satisfaction levels.

Based on discussion with customers in the current context, the lifestyle variables that could influence the banking channels are financial optimism, travel, and consumption of branded goods.

### **Objectives**

To identify the psychographic variables that are important for channel selection/preference

To test the influence of lifestyle activities on banking channel selection, they are studied in the following ways:

- a) By studying the psychographics of channel selection without the inclusion of lifestyle variables
- b) By including the lifestyle variables with psychographics of channel selection

To identify those psychographic segments that differentiate the two urban regions in their bank selection, channel preferences, and product preferences. (Bangalore is considered as Urban 1 and the grouping of Mysore, Mangalore, Hubli and Dharwad is considered as Urban 2 for this study).

To Test hypotheses relating to a) the factors influencing the channel selection of the urban regions under consideration (relating to the similarity of psychographic segments of the two urban regions) and 2) hypotheses, relating to observations of certain specific psychographics exhibited by a) customers of the two urban regions, b) customers pursuing Information and Non-Information technology careers, c) men and women, and d) high and non high income, towards attributes like innovative products, regular investment updates, electronic banking systems, customized products, speed of and loan processing.

### **Hypotheses to be tested**

Ho1: Customer segmentation as reflected by the factors of channel selection, their constituent variables and the individual factor loadings of these variables are the same for urban one and urban two.

Ho2: There is no significant difference between population of urban 1 and urban 2, in their preference for branch banking due to face to face contact the channel provides.

Ho3: There is no significant difference between population of urban 1 and urban 2, in their preference for branch banking due to their resistance to change their methods.

Ho4: There is no difference between population of urban 1 and urban 2, in their preference for internet banking, due to its convenience.

### **Methodology and Results**

This research studied the retail banking customers of Karnataka in the age group of 18 to 42 years as this was the group that was identified to exhibit a great potential for retail banking business as per the inference drawn from discussions with the banking professionals. Karnataka was chosen as a matter of convenience and its growing importance in the economy of India.

The attributes considered important in the selection of banking channel were selected from literature and checked for their relevance in the current research context through discussions with banking customers and an expert panel of bankers. The attitudes, interests and opinions were to be measured for these attributes. The first objective of this research study was achieved in this step.

The psychographic variables are listed in Table 1

<i>Channel Selection</i>		
<i>Attitude</i>	<i>Towards</i>	<i>Face to Face interaction</i>
<i>Attitude</i>	<i>Towards</i>	<i>Secure Branch banking</i>
<i>Attitude</i>	<i>Towards</i>	<i>Technology Comfortable</i>
<i>Attitude</i>	<i>Towards</i>	<i>E- channel access</i>
<i>Attitude</i>	<i>Towards</i>	<i>Resistance to change</i>
<i>Attitude</i>	<i>Towards</i>	<i>Branch banking Convenience</i>
<i>Opinion</i>	<i>About</i>	<i>ATM Operations Awareness</i>
<i>Attitude</i>	<i>Towards</i>	<i>ATM convenience</i>
<i>Opinion</i>	<i>About</i>	<i>ATM security</i>
<i>Interest</i>	<i>In</i>	<i>ATM usage extension</i>
<i>Attitude</i>	<i>Towards</i>	<i>Control</i>
<i>Opinion</i>	<i>About</i>	<i>Internet banking convenience</i>
<i>Opinion</i>	<i>About</i>	<i>Secure Internet banking</i>
<i>Opinion</i>	<i>About</i>	<i>External influence on IB usage</i>
<i>Interest</i>	<i>In</i>	<i>Technological innovations</i>
<i>Opinion</i>	<i>About</i>	<i>Tele banking convenience</i>
<i>Opinion</i>	<i>About</i>	<i>Secure Tele banking</i>
<i>Attitude</i>	<i>Towards</i>	<i>Channel Information availability</i>
<i>Opinion</i>	<i>About</i>	<i>External influence on Tele banking</i>
<i>Attitude</i>	<i>Towards</i>	<i>Earnings confidence</i>
<i>Interest</i>	<i>In</i>	<i>Outbound shopper</i>
<i>Interest</i>	<i>In</i>	<i>Least Price deals</i>
<i>Interest</i>	<i>In</i>	<i>Premium Products</i>
<i>Interest</i>	<i>In</i>	<i>Exotic holiday traveler</i>
<i>Activity</i>	<i>of</i>	<i>Local traveler</i>

Table 1: Psychographic variables of Channel Selection

There are some variables that were elicited during discussions with retail banking customers and that are of specific interest to Indian context. They are uninterrupted availability of electronic channels, availability of online trading facilities, regular updation of investment opportunities, ATM awareness and ATM extension. Due to infrastructural bottlenecks, uninterrupted availability of E- Channels was an important criterion that was brought out through initial discussions with banking customers. Due to changing trends in the investment behavior of customers, availability of Online trading facilities and regular updation of investment opportunities were considered as important variables. An initial study revealed that not all the ATM users were fully aware of other options that were available on ATM's and their willingness to use the other facilities apart from cash withdrawals (considered being the most performed activity on ATM followed by account balance checks).

The data required for the main study was obtained from a field survey. Personal interviews were conducted with respondents along with the filling up of the questionnaire. The items were measured on a Likert Scale (Strongly Agree – Strongly Disagree). The geographic region Bangalore was considered as Urban 1 and the combination of Mysore, Mangalore and Hubli and Dharwad was considered as Urban 2. For the Urban one samples totaled 248 and Urban two sampled 272.

Objectives 2 and 3 were achieved by the following method. An exploratory factor analysis was conducted by using the variables as mentioned in table 1.1 by using lifestyle variables separately and later on by including lifestyle variables. This method was followed for both urban one and urban two. Table 2 explains the method.

<i>Criteria</i>	<i>Urban One</i>	<i>Urban Two</i>
<i>Without Lifestyles</i>	<i>Result 1</i>	<i>Result 2</i>
<i>With Lifestyles</i>	<i>Result 3</i>	<i>Result 4</i>

Table 2: Testing with and without inclusion of lifestyle variables

Results are described in the forthcoming sections.

Result 1: Results of Exploratory Factor Analysis conducted without using lifestyle variables on Urban One are provided in tables 3 and 4.

<i>Factor</i>	<i>Factor Name</i>	<i>Eigen Value</i>	<i>% variance</i>
<i>Factor 1</i>	<i>Technology oriented</i>	<i>2.841</i>	<i>14.953</i>
<i>Factor 2</i>	<i>Branch banking convenience seekers</i>	<i>2.380</i>	<i>12.529</i>
<i>Factor 3</i>	<i>New Technology safety seekers</i>	<i>2.259</i>	<i>11.891</i>
<i>Factor 4</i>	<i>ATM evangelists</i>	<i>2.011</i>	<i>10.586</i>
<i>Factor 5</i>	<i>Information control seekers</i>	<i>1.326</i>	<i>6.980</i>
<i>Cumulative % variance</i>			<i>56.93</i>

Table 3: Factors, Eigen Values and percentage variance explained – Without Lifestyles – Urban One

<i>Factor</i>	<i>Constituent Variables and their factor loadings</i>	
<i>Technology oriented</i>	<i>Technology comfortable</i>	0.698
	<i>E- Channel access</i>	0.714
	<i>Resistance to change</i>	- 0.752
	<i>Internet banking convenience</i>	0.644
	<i>Technological innovations</i>	0.448
<i>Branch banking convenience seekers</i>	<i>Face to Face interaction</i>	0.852
	<i>Secure branch banking</i>	0.859
	<i>Branch banking convenience</i>	0.671
<i>New Technology safety seekers</i>	<i>Secure Internet banking</i>	0.478
	<i>External influence on Internet Banking</i>	0.539
	<i>Tele- banking convenience</i>	0.752
	<i>Secure Tele- banking</i>	0.756
<i>ATM evangelists</i>	<i>ATM operations awareness</i>	0.651
	<i>ATM convenience</i>	0.587
	<i>ATM security</i>	0.483
	<i>ATM usage extension</i>	0.701
<i>Information control seekers</i>	<i>Control</i>	0.620
	<i>Channel information availability</i>	0.687
	<i>External Influence on Tele-banking</i>	0.721

Table 4: Factors, Constituent Variables and factor loadings – Without Lifestyle – Urban One

Result 2: Results of Exploratory Factor Analysis conducted without using lifestyle variables on Urban Two are provided in tables 5 and 6.

<i>Factor</i>	<i>Factor Name</i>	<i>Eigen Value</i>	<i>% variance</i>
<i>Factor 1</i>	<i>Branch banking convenience seekers</i>	2.346	12.346
<i>Factor 2</i>	<i>New Technology Safety seekers</i>	2.242	11.801
<i>Factor 3</i>	<i>Branch security seekers</i>	1.855	9.762
<i>Factor4</i>	<i>ATM control seekers</i>	1.698	8.939
<i>Factor 5</i>	<i>External awareness</i>	1.485	7.815
<i>Factor 6</i>	<i>External influence seekers</i>	1.187	6.248
<i>Cumulative % variance</i>			56.91

Table 5: Factors, Eigen Values and percentage variance explained – Without Lifestyles – Urban Two

<i>Factor</i>	<i>Constituent Variables and their factor loadings</i>	
<i>Branch banking convenience seekers</i>	<i>Branch banking convenience</i>	0.631
	<i>Technology Comfort</i>	0.735
	<i>E- Channel access</i>	-0.720
	<i>Resistance to change</i>	-0.545
<i>New Technology Safety seekers</i>	<i>Internet banking convenience</i>	0.596
	<i>Secure Internet banking</i>	0.621
	<i>Tele- banking convenience</i>	0.493
	<i>Secure Tele- banking</i>	0.384
<i>Branch security seekers</i>	<i>Face to Face interaction</i>	0.760
	<i>Secure branch banking</i>	0.749
<i>ATM control seekers</i>	<i>ATM convenience</i>	0.777
	<i>ATM security</i>	0.447
	<i>ATM usage extension</i>	0.634
	<i>Control</i>	0.581
<i>External awareness</i>	<i>ATM operations awareness</i>	0.725
	<i>External influence on Internet Banking</i>	0.493
	<i>Technological Innovations</i>	0.384
<i>External influence seekers</i>	<i>External Influence on Tele banking</i>	0.643
	<i>Channel information availability</i>	0.762

Table 6: Factors, Constituent Variables and factor loadings – Without Lifestyle - Urban Two

Result 3: Results of Exploratory Factor Analysis conducted by including lifestyle variables on Urban One are provided in tables 7 and 8.

<i>Factor</i>	<i>Factor Name</i>	<i>Eigen Value</i>	<i>% variance</i>
<i>Factor 1</i>	<i>Branch security seekers</i>	2.776	11.103
<i>Factor 2</i>	<i>Technology oriented</i>	2.526	10.105
<i>Factor 3</i>	<i>Information convenience seekers</i>	2.115	8.459
<i>Factor 4</i>	<i>ATM evangelists</i>	1.961	7.845
<i>Factor 5</i>	<i>Confident shopper</i>	1.662	6.648
<i>Factor 6</i>	<i>Traveler</i>	1.388	5.552
<i>Factor 7</i>	<i>Control seekers</i>	1.364	5.457
<i>Factor 8</i>	<i>Premium products</i>	1.269	5.078
<i>Cumulative % Variance = 60.24</i>			

Table 7: Factors, Eigen Values and percentage variance explained – With Lifestyles – Urban One

<i>Factor</i>	<i>Constituent Variables and their factor loadings</i>	
<i>Branch security seekers</i>	<i>Face to Face interaction</i>	0.868
	<i>Secure Branch banking</i>	0.865
	<i>Branch convenience</i>	0.735
<i>Technology oriented</i>	<i>Technology comfort</i>	0.550
	<i>E- Channel access</i>	0.559
	<i>Resistance to change</i>	-0.635
	<i>Internet banking convenience</i>	0.750
	<i>Secure Internet banking</i>	0.611
	<i>Technological Innovations</i>	0.536
<i>Information convenience seekers</i>	<i>External influence on Internet Banking</i>	0.401
	<i>Tele- banking convenience</i>	0.785
	<i>Secure Tele- banking</i>	0.777
	<i>Channel Information availability</i>	0.403
<i>ATM evangelists</i>	<i>ATM operations awareness</i>	0.638
	<i>ATM convenience</i>	0.625
	<i>ATM security</i>	0.534
	<i>ATM usage extension</i>	0.629
<i>Confident shopper</i>	<i>Earnings Confidence</i>	0.548
	<i>Outbound shopper</i>	0.660
	<i>Least Price deals</i>	0.660
<i>Traveler</i>	<i>Exotic holiday traveler</i>	0.691
	<i>Local traveler</i>	0.757
<i>Control seekers</i>	<i>Control</i>	0.662
	<i>External Influence on Tele banking</i>	0.757
<i>Premium products</i>	<i>Premium products</i>	0.801

Table 8: Factors, Constituent Variables and factor loadings – With Lifestyle - Urban One

Result 4: Results of Exploratory Factor Analysis conducted by including lifestyle variables on Urban One are provided in tables 9 and 10.

<i>Factor</i>	<i>Factor Name</i>	<i>Eigen Value</i>	<i>% variance</i>
<i>Factor 1</i>	<i>Branch convenience seekers</i>	2.357	9.429
<i>Factor 2</i>	<i>Tele – Internet convenience seekers</i>	2.283	9.133
<i>Factor 3</i>	<i>Branch security seekers</i>	1.943	7.771
<i>Factor 4</i>	<i>ATM control seekers</i>	1.722	6.888
<i>Factor 5</i>	<i>Best Deals researcher</i>	1.595	6.381
<i>Factor 6</i>	<i>Premium outbound shopper</i>	1.546	6.186
<i>Factor 7</i>	<i>Confident traveler</i>	1.280	5.119
<i>Factor 8</i>	<i>Information seeker</i>	1.261	5.045
<i>Cumulative % Variance = 55.95</i>			

Table 9: Factors, Eigen Values and percentage variance explained – With Lifestyles – Urban Two

<i>Factor</i>	<i>Constituent Variables and their factor loadings</i>	
<i>Branch convenience seekers</i>	<i>Technology comfort</i>	0.631
	<i>E- Channel access</i>	0.740
	<i>Resistance to change</i>	-0.670
	<i>Branch convenience</i>	-0.536
	<i>Technological Innovations</i>	0.427
<i>Tele – Internet convenience seekers</i>	<i>Internet banking convenience</i>	0.599
	<i>Secure Internet banking</i>	0.632
	<i>Tele- banking convenience</i>	0.719
	<i>Secure Tele- banking</i>	0.758
<i>Branch security seekers</i>	<i>Face to Face interaction</i>	0.700
	<i>Secure Branch banking</i>	0.735
<i>ATM control seekers</i>	<i>ATM convenience</i>	0.749
	<i>ATM security</i>	0.377
	<i>ATM usage extension</i>	0.664
	<i>Control</i>	0.548
<i>Best Deals researcher</i>	<i>Least Price deals</i>	0.457
	<i>ATM operations awareness</i>	0.616
	<i>External influence on Internet Banking</i>	0.507
<i>Premium outbound shopper</i>	<i>Outbound shopper</i>	0.707
	<i>Premium products</i>	0.572
	<i>Exotic holiday traveler</i>	0.555
<i>Confident traveler</i>	<i>Earnings Confidence</i>	0.416
	<i>Local traveler</i>	0.717
<i>Information seeker</i>	<i>Channel Information availability</i>	0.694
	<i>External Influence on Tele banking</i>	0.559

Table 10: Factors, Constituent Variables and factor loadings – With Lifestyle - Urban Two

<i>Criteria</i>	<i>Urban One</i>	<i>Urban Two</i>
<i>Without Lifestyles</i>	<i>Number of factors = 5</i>	<i>Number of factors = 6</i>
	<i>Cumulative Variance = 56.93</i>	<i>Cumulative Variance = 56.91</i>
<i>With Lifestyles</i>	<i>Number of factors = 8</i>	<i>Number of factors = 8</i>
	<i>Cumulative Variance = 60.24</i>	<i>Cumulative Variance = 55.95</i>

Table 11: A Comparison of results across the two urban regions

As observed from the results in the table 11, the inclusion of lifestyle variables for urban one has shown an increase in the variance explained from 56.93 percent to 60.24 percent. Whereas the inclusion of lifestyle for urban two has led to decrease in variance explained to 55.95 percent from 56.91 percent. From this observation, we may conclude that lifestyle variables increase the variance explained in channel selection for urban one and not for urban two.



Part of Objective 4 was accomplished by performing a Confirmatory Factor Analysis. Confirmatory Factor analysis was performed based on inputs from Literature (Rugimbana (1994), Chow and Wan (2005)), interviews with customers and researcher's gut feeling. Variables whose factor loadings were less than 0.5 from the results of Exploratory Factor Analysis were left out of this model building. The confirmatory factor analysis eliminated a variable while modeling. For Urban One, they are: External influence on Internet banking, Channel Information availability and External influence on Tele Banking.

For Urban Two: ATM Security, Technology Innovations, Earnings Confidence and Least Price Deals.

Urban One: The Factors and the factor loadings of individual variables in their respective factors are provided in table 12.

<i>Factors</i>	<i>Component Variables and their Factor Loadings</i>
<i>Branch Security</i>	<i>Face to Face interaction = 1.02</i> <i>Secure Branch Banking = 0.88</i>
<i>Branch Convenience</i>	<i>Technology Comfort = 0.89</i> <i>E - Channel Access = 0.77</i> <i>Resistance to change = - 1.09</i> <i>Branch Banking convenience = - 0.96</i>
<i>E- Channel security</i>	<i>ATM Security = 0.26</i> <i>Control = 0.0061</i> <i>Secure Internet Banking = 0.94</i> <i>Secure Tele Banking = 0.28</i>
<i>E – Channel Convenience</i>	<i>ATM operations Awareness = 0.26</i> <i>ATM Convenience = 0.083,</i> <i>ATM Usage extension = 0.18</i> <i>Internet Banking Convenience = 0.95</i> <i>Technology Innovations = 0.34</i> <i>Tele Banking Convenience = 0.22</i>
<i>Lifestyle</i>	<i>Earnings Confidence = 0.26</i> <i>Outbound Shopping = 0.63</i> <i>Least Price Deals = 0.29</i> <i>Interest in Premium Products = 0.17</i> <i>Exotic Holiday Travel = 0.34</i> <i>Local Travel = 0.11</i>

*Table 12: Factors, their component variables and their maximum likelihood factor loadings*

Urban Two: The Factors and the factor loadings of individual variables in their respective factors are provided in table 13.

<i>Factors</i>	<i>Component Variables and their Factor Loadings</i>
<i>Branch Security</i>	<i>Face to Face Interaction = 0.65</i> <i>Secure Branch Banking = 0.57</i>
<i>Branch Convenience</i>	<i>Technology Comfort = 0.67</i> <i>E- Channel access = 0.51</i> <i>Resistance to Change = - 0.90</i> <i>Branch Banking Convenience = - 0.84</i>
<i>E- Channel security</i>	<i>Secure Internet Banking = 0.73</i> <i>Secure Tele Banking = 0.57</i>
<i>E-Channel Convenience</i>	<i>ATM Operations Awareness = 0.25</i> <i>ATM Convenience = 0.12</i> <i>ATM Usage extension = 0.29</i> <i>Internet Banking Convenience = 0.67</i> <i>Tele Banking Convenience = 0.46</i> <i>Channel Information Availability = 0.11</i>
<i>Lifestyle</i>	<i>Outbound Shopping = 0.32</i> <i>Premium Products = 0.21</i> <i>Exotic Holiday Travel = 0.56</i> <i>Local Travel = 0.15</i>

Table 13: Factors, their component variables and their maximum likelihood factor loadings

## Results of hypotheses testing:

### Hypothesis 1

As observed from the above two tables, the constituent variables of the factors are different and hence the segments discovered vary based on constituents and hence null hypothesis is rejected and alternate hypothesis is accepted. Customer segmentation as reflected by the factors of channel selection, their constituent variables and the individual factor loadings of these variables are different for urban one and urban two.

### Hypothesis 2, 3, 4 and 5

The table 14 below provides the mean value, Standard Deviations for the two groups to be tested, the calculated Z value and theoretical Z value and based on which the hypothesis is accepted or rejected.

This completes the accomplishment of objective 4.

<i>Hypo</i>	<i>Means (Group 1)</i>	<i>Means (Group 1)</i>	<i>Std Dev (Group 1)</i>	<i>Std Dev (Group 1)</i>	<i>Z –statistic (calculated)</i>	<i>Acceptance/ Reject based on theoretical Z value Range between 1.96 and – 1.96</i>
2	3.879	4.062	1.187	.905	- 0.60	Accept Ho
3	2.758	2.897	1.293	1.225	0.204	Accept Ho
4	3.838	3.227	1.199	1.0271	2.60	Reject Ho and Accept H1

Table 14: Results of Hypotheses testing

## Conclusions

The psychographic segments of banking channel selection vary across geographic regions and hence the banks have to look into these issues while delivering value through their banking channels. Hence while designing channels for urban one customer (bigger and cosmopolitan city) lifestyle of customers needs to be studied.

## Limitations and Future Scope

The study could be extended to other states of India and results be compared with results obtained in this research. This could answer the question - “are customers the same across India?” More relevant variables on lifestyle activities, bank selection, channel selection and product selection and usage variables can be included to get a better psychographic picture.

With techniques like ZMET, Laddering and Technology readiness index, a better understanding of psychographics of banking customers could be obtained.

## Biography

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## WINE TOURISM EXPERIENCES, UNDERSTANDING THE ROLE OF CELLAR DOOR VISITS: DOURO (PORTUGAL) VERSUS NAPA VALLEY (USA)

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### Abstract

Wine Tourism is a key factor in the development of many regions around the world. For sustainability and marketing purposes, this study aims to understand two of the most important market segments for this sector - Generations X and Y - their demographic and psychographic profiles, their perceptions on wine, expectations and satisfaction level when visiting a winery based on selected quality indicators. Research was conducted in an old (Douro) and a new world wine region (Napa Valley). A survey comprised of 42 questions was placed on a social networking website. From the total number of respondents, voluntary participants were randomly selected, in each wine region, to visit two local wineries. Further in-depth study on specific indicators would broaden the understanding of both market segments. Generation Y is less demanding with a preference for a more flexible, less structured winery experience. Ultimately, visitors want “engagement, personalization, quality and connection”.

**Keywords:** Generation X, Generation Y, Wine Tourism, Experiential marketing

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### Introduction

The share of global wine has increased dramatically presenting a market that is increasingly competitive, internationalized and fragmented. Most marketing efforts have also primarily been directed towards the Baby Boomer population, aged between 44 and 65. In the quest to explore two, somewhat overlooked, market segments – Generations X (born between 1965 and 1977) and Y (born between 1977 and 1994. In this study 1988, and not 1994, is the year taken into consideration given that 21 is the legal drinking age in some countries and states) – the study presents a sensorial assessment of the activities provided during a visit to two wineries in both an old (Douro Valley) and new (Napa Valley) wine producing country. Non-adopters are also object of this study and the aim would be to introduce them to their first cellar visit. We first begin by presenting some major theoretical considerations that justify the

importance of these key markets to the wine industry, followed by an outline of the research design and methodology.

## Literature Background

Wine tourism is seen as a strategy for encouraging growth in consumption amongst new markets (Treloar, 2004) yet most of the marketing activities of the wine industry are aimed at an older generation (Thach, E. et al, 2006). Winery visitation is increasingly significant to both the wine and tourism sectors (Treloar et al, 2004) and aids in ensuring sustainability. Generations X and Y require “a different focus from those who staff the cellar door”. The older visitor leaves the winery more satisfied than the younger informant (Charter, S. and Fountain, J., 2006). Whilst the former values the quality of the product, younger visitors (Generation X and Y) are far more multisensorial (Sheahan, 2005), giving attention to the overall service experiences. Education is also a crucial factor. The majority of young drinkers consume predominantly beer and spirits (Treloar, 2004). One of the reasons is the lack of wine industry communications aimed at these segments. Education is not only considered a new way to sell wine (Arnold, E. 2006), with Generation X valuing the presence of well-trained and knowledgeable staff (Treloar, 2002), but may be a factor in altering the general perceptions held by Generation Y regarding wine (Thach, E.; Olsen, J; 2006) and alcohol consumption.

## Research Design & Methodology

The research was conducted in two different wine regions – a new world (Napa Valley) and an old world wine region (Douro Valley). Although Napa Valley produces a mere four percent of California's total wine production it has an economic impact in the U.S. economy nearing 34%, equal to \$42.4 billion. According to a Napa County Visitor Profile study<sup>46</sup>, most tourism to Napa County is comprised of domestic visitors (92,5 percent) , with those aged 45 and above account for 60.8 percent of all visitors. The Douro wine region is primarily associated with Port wine production, however it also produces a significant amount of table wines. <sup>3</sup>The Douro wine region is classified as World Heritage, by UNESCO, and was recently ranked 7th in the new National Geographic Society listing of 133 sustainable tourism destinations. It was a travel and stay-over destination for over 240 thousand visitors, in 2007, of which the majority comprised of couples aged 50 to 65. <sup>47</sup>

## Research

### First phase – Online survey

Research was conducted in two different phases, using both quantitative and qualitative methods to collect data. The first phase involved a survey which was placed online using

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<sup>46</sup> Napa County Visitor Profile Study & Napa County Economic Impact Study, March 2006

<sup>47</sup> O Enoturismo como factor de desenvolvimento e internacionalização de um território, Jorge Dias, IVDP

various social networking sites over a 4-week period, between the end of August and September 2009. The survey comprised of three parts (see Figure 1), 42 questions, open and close-ended. The second phase of the research relates to the Experiential Mix – the respondents expectation and satisfaction level upon visiting a winery which is discussed in this study. The causal model adopted can be viewed in Figure 1.

### **Second phase – Winery tour visits**

The second stage of the research comprised of visits to two wineries in each wine region. The visits were conducted as a group tour during the month of September. Voluntary participants were from both Generations Y and X and included wine consumers as well as non-adopters.

A total of 16 participants visited the Douro region, whilst 12 visited the Napa winery region. The wineries were informed of these visits for varying reasons. Essentially, most wineries require bookings for group visits. However the visit was treated as normal. After completing both winery visits the participants were requested to complete an online survey comprised of 56 questions - 28 for each winery respectively. This survey was also taken before the visit to evaluate the informants expectations, covering six dimensions: exterior, interior, service, staff, wine and convenience attributes, with a 5 point Likert scale, where 1= Very Poor; 2=Poor; 3= Fair; 4=Good and 5=Very Good. A total of 23 winery quality indicators were selected based on relevant literature review. The difference between the informants perception of the visit will lead to either their satisfaction, if the performance exceeds expectations, or dissatisfaction, if performance falls short. At the Douro each individual was provided with an exit questionnaire which was self completed. On the other hand, the Napa Valley participants completed the same survey via online after the cellar tour experiences. The quality indicators are those referenced in the Experiential Mix (part three of Figure 1).

### **Experiential Mix – Napa Valley**

A total of 12 participants visited the Napa winery region. Four visitors were from Generation Y, evenly divided between males and females. Half the sample had had the experience of visiting a winery. The informants comprised of two couples - one married and employed full-time and the other single, full-time students. Both couples have higher education, with 75% of participants from Generation Y earning less than \$2000 a month, in comparison to Generation X. Concerning their perception of wine, one couple considers itself “knowledgeable on wine” and are consumers. The remaining participants “know very little” to “below average” on wine matters and are infrequent consumers of wine. Generation X is represented by a total of 8 participants, all of which had previously had the experience of visiting a winery. With a mean of 38 years of age, Generation X is evenly divided between males and females. Three couples are married; one individual is single and the other divorced. All participants have higher education and earn a higher income with 38% of the sample in the \$3001-\$3500 monthly income bracket. An equal sample percentage receives a

monthly income of over \$6000. The remaining 26% earns between \$3501 and \$5000. The majority of Generation X considers itself “knowledgeable on wine” (75%) with the remaining two participants (25%) classifying their knowledge as “below average”. Half the participants were infrequent wine consumers.

### **Experiential Mix – Douro Valley**

A total of 8 visitors were from Generation Y, comprised of 5 males and 3 females. The mean age for Generation Y is 28 years. Five are single, followed by two married participants and one currently living with a partner. Concerning academic qualifications, four of the visitors had “not completed high school”, three had earned their “Masters Degree” and one informant had “completed high school”. Only one of the participants was “employed part-time”, whilst the remaining seven were “employed on a full-time basis”. Half the informants earn a monthly income of 501€ to 700€, 13% earn between 701€ and 1000€, 13% between 1001€ and 1500€ and the remaining 13% between 1501€ and 2000€. Concerning wine consumption, 63% consider their “knowledge on wine below average” whilst the remaining participants, 38%, “know very little” to “nothing” on wine matters. Of the total, four visitors are non-adopters of wine. Generation X is equally represented by a total of 8 participants, with a mean age of 41 years, divided between three males and five females. Three informants are married, three are single, one is divorced and the other widowed. A total of five participants did not complete high school, two managed to complete it and one holds a “professional degree/certificate”. Six participants are employed full-time, one is unemployed and the remaining individual is a full-time student. As far as monthly wages are concerned, a single informant earns between 401€ and 500€, three earn an income of 501€ to 700€, three between 701€ and 1500€ and one between 2001€ and 2500€. The majority of Generation X considers its “knowledge on wine below average” with three participants classifying their knowledge as “little to none”. Half the participants were non-adopters.

## **Results**

### **Napa Valley**

Table 1 shows the mean difference between the performance levels of each winery visit and the initial registered expectations, for both Generations Y and X. The quality indicators “attractive settings”, “clean”, “uncluttered” and “visually appealing” exceed the expectations for Winery N1, for both generations, and present less favorable scores for Winery N2. One of the main reasons could be N1’s new and modern infrastructures, including a spacious, décor tasting room, where the visit was conducted. Indicator “ability to talk to winemaker” received a 0.38 mean score for Generation X and Winery N1. One of the participants had the opportunity to speak with the wineries founder and owner which greatly increased his/her satisfaction level. Previous research carried out by Cambourne and Macionis (2000) resonate this finding, suggesting that tourists enjoy the chance to “meet the maker”. Generation Y found the visit to Winery N2 more “informative and educational”, given that it included a



wine tour offering half of the informants, who were not very knowledgeable on wine, a broader understanding of the wine making process. However although this was considered a positive aspect for Generation Y it was an undermining factor for Generation X. The mean indicator for “wine quality” received one of the lowest scores (-0.75) for Generation Y, when referring to Winery N2. None of the wineries surpassed both generations’ expectations concerning this indicator. Winery N1 received the lowest “reasonably priced” wine scores. Both generations are price sensitive with Generation Y being more so. Both wineries had positive “convenience attributes”, surpassing the initial expectations, namely: “convenient opening times”, “tasting notes” and “price list available” and the “ability to join a mailing list”.

### **Douro Valley**

Generation Y was less demanding, with a total of 7 negative scores in relation to their initial expectations, in comparison to the 20 negative scores of Generation X. Both generations considered Winery D1 more “clean” and “less cluttered”, attributes which may be the result of a spacious, modern and new infrastructure. During both visits the groups found the atmospheres enjoyable. Winery D2, surpassed all expectations for both generations in the “service” and “staff” dimensions. Generation Y rated high mean scores of 1 regarding the “ability to talk to winemaker”, 0,87 for “understanding visitor needs” and 1,25 “providing individual attention”. This data corresponds with the Napa Valley results for this same generation that shows preference for a less structured and more flexible approach to the winery visit. “This suggests that appropriate staff recruitment and training are paramount if quality experiences are to be provided.” (Griffin and Loersch, 2006). Low scores for both generations and wineries were assigned to the indicators “reasonably priced wine”, indicating price sensitivity, and “adequate signage /easy to find”, given the insufficient road signs available and the slightly difficult path route approaching the location of Pinhão. Another “convenience” indicator – “ability to join mailing list” - received a relevant score from both generations, concerning Winery D2, in that contact details were requested from the participants upon termination of the visit.

### **Conclusions**

Overall, both generations, and in particular Generation Y, prefer a more flexible, less structured experience (Charter and Fountain, 2006) with an educational approach. Ultimately what the visitors want are “engagement, personalization, quality and connection”. They are attracted to the *experience* that is engaging and personal. Part of the “winery experience” is the tasting room which needs to provide an enjoyable ambience and be well presented. A significant number of participants mentioned the “quality of the wine”, which is an important attribute. “The issue of the product (wine) as against service shows evidence that the latter are of more importance to the visitor than the former” (Charters and O’Neill, 2000). In order to achieve this the focus must be on the customers experience and his or her expectations.

## Biography

**Carla Tavares** is a masters student at Minho University, where she is currently concluding her masters in Marketing and Strategic Management(MSc). Specializing in communications and project management, Carla was Communications Director at APCOR – Portuguese Cork Association – for almost ten years. During this time she was responsible for carrying out three integrated and international communications programs.

The first Great Wine Capitals Network Research grant was handed to her in Bordeaux, November 2009. Further findings on this extensive project can be found online at [generationsxandy.blogspot.com](http://generationsxandy.blogspot.com)

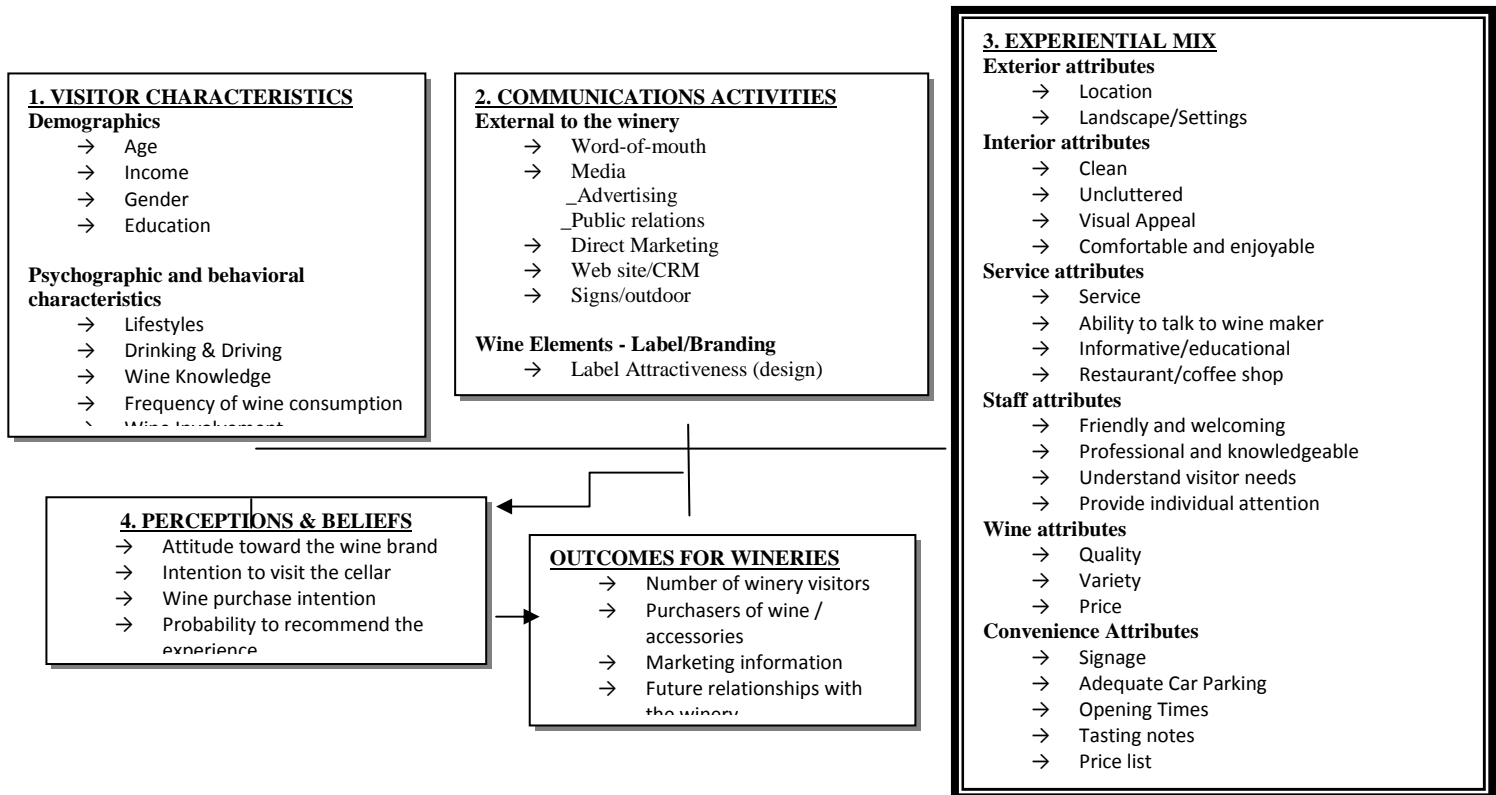
**António Azevedo** received his PhD in Management Science from Economics and Management School of Minho University (EEG-UM), Braga, Portugal. He is Assistant Professor in EEG-UM, and also at Management and Administration Higher Education Institute- ISLA in Gaia, Portugal. His topics of research are: place branding strategy; relationship marketing; advertising processing; consumer behaviour; psychographics; marketing communications; crisis communications and management.

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Figure 4 - Causal Model based partially on Hall, C. et al (2000), Wine tourism around the world: development, | management and markets, Figure 7.1, P. 143



		NAPA		DOURO	
1	Able to view surroundings	Y	X	Y	X
	EXP	4,25	3,75	4,25	4,88
	N1	4,25	4,13	5	4,75
	N2	4,25	4,63	4,88	4,88
2	Attractive settings	Y	X	Y	X
	EXP	4,25	4,13	4,38	4,5
	N1	4,75	4,5	4,88	4,63
	N2	4,5	4	4,75	5
3	Clean	Y	X	Y	X
	EXP	4,75	4,38	4,5	4,5
	N1	4,75	5	4,63	4,88
	N2	3,75	4,5	4,25	4,38
4	Uncluttered	Y	X	Y	X
	EXP	4,5	3,38	4,38	4,38
	N1	4,75	4,5	4,63	4,75
	N2	3,5	4	4,5	4,5
5	Visually Appealing	Y	X	Y	X
	EXP	4,5	4,13	4,5	4,63
	N1	4,75	4,88	4,88	4,5
	N2	3,75	4	4,63	4,88
6	Comfortable and enjoyable	Y	X	Y	X
	EXP	4,75	4,75	4,25	4,75
	N1	4,5	4,5	4,63	4,88
	N2	4,25	4,5	4,75	4,75
7	Prompt Service	Y	X	Y	X
	EXP	4,5	4,13	4,38	4,63
	N1	4,25	4,63	4,5	4,25
	N2	4,5	4,63	5	5
8	Ability to talk to winemaker	Y	X	Y	X
	EXP	3,75	3,5	3,75	4,43
	N1	3,25	3,88	3,88	3,63
	N2	4,25	3,38	4,75	4,75
9	Informative and educational	Y	X	Y	X
	EXP	4,25	4,5	4,25	4,63
	N1	4	4,63	4,38	4,13
	N2	4,5	4,63	4,88	4,88
10	Restaurant or coffee shop	Y	X	Y	X
	EXP	2,5	3,38	3,38	4
	N1	3,25	2,38	3,25	3,5
	N2	3,75	2,38	4,13	4,63
11	Friendly and welcoming	Y	X	Y	X
	EXP	4,75	4,88	4,25	4,75
	N1	4,75	4,88	4,5	4,75
	N2	5	4,75	4,88	5
12	Professional and knowledgeable	Y	X	Y	X
	EXP	4,5	4,75	4,5	4,88
	N1	4,25	5	4,5	4,75
	N2	4,75	4,63	5	5

Table 4 – Experiential Mix - Mean Scores for Generations X and Y

		NAPA		DOURO	
13	Understand visitor needs	Y	X	Y	X
	EXP	4,25	4,75	4,13	4,63
	N1	4	4,75	4,13	4,25
	N2	4,5	4,63	5	5
14	Provide individual attention	Y	X	Y	X
	EXP	4	4,5	3,63	4
	N1	4	4,5	4	4,13
	N2	4,5	4,88	4,88	5
15	Wine quality	Y	X	Y	X
	EXP	4,5	4,75	4,25	4,75
	N1	4,5	4,5	4,63	4,75
	N2	3,75	4,5	4,63	4,75
16	Wine variety	Y	X	Y	X
	EXP	3,5	4	4	4,75
	N1	4,25	4,25	4,38	4,63
	N2	3,75	3,88	4,63	4,88
17	Reasonably priced	Y	X	Y	X
	EXP	4	4,38	4,5	4,75
	N1	3	3,63	3,38	4,13
	N2	3,75	4,13	3,75	4,63
18	Adequate signage / easy to find	Y	X	Y	X
	EXP	3,5	3,38	4,25	4,38
	N1	4,25	4,38	3,63	3,88
	N2	4,5	4,13	3,75	4
19	Adequate car parking	Y	X	Y	X
	EXP	3,5	4,13	4	4,5
	N1	4,5	4,75	4	4
	N2	4,5	4,13	4	4,5
20	Convenient opening times	Y	X	Y	X
	EXP	3,75	4	4	4,38
	N1	4,5	4,63	4	3,88
	N2	4,75	4	4,25	4,38
21	Tasting notes available	Y	X	Y	X
	EXP	3,25	2,75	3,75	4,63
	N1	3,5	4,25	4,13	4,38
	N2	3,75	4	4,38	4,63
22	Price list available	Y	X	Y	X
	EXP	3,75	4,13	3,86	4,75
	N1	4,25	4,63	4	4,25
	N2	3,5	4,38	4	3,63
23	Ability to join mailing list	Y	X	Y	X
	EXP	2,25	2,25	3,25	4,13
	N1	4,25	4,63	3,13	3,5
	N2	4,25	4	4,25	4,63



**THE EFFECT OF PHARMACEUTICAL INJECTIONS PACKAGING FORM  
ON THE USER - ITS STRATEGIC IMPLICATIONS BASED ON  
A STUDY IN THE INDIAN MARKET**

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**Abstract**

Packaging is vital in the marketing strategy of pharmaceutical products, especially in the context of IPR. The form of the packaging especially the colors, pictures and design has an impact on consumer beliefs regarding the product.

This paper studies the impact on the consumers in the Indian market and its strategic consequences worldwide. It looks at the specific influence of the influence on the doctors in prescribing the product and the indirect influence on sales based on the patients perception of the form. A survey is done on 400 doctors and 1000 patients across India using crosstabs and chi square test which specifically identifies the market, the doctors based on their specialization and the patients based on their gender that are influenced in a crowded sector.

This useful information for pharmaceutical makers helps evolve strategy to differentiate the pharmaceutical injections based on the perceptions of the multicultural Indian market.

As the healthcare sector consumption of the GDP is 10%, the value of the paper is enormous for worldwide healthcare in addition to the Indian market. The limitation is the expansion of the Indian market at the bottom of the pyramid in the next couple of years.

**Keywords:** Injection, Form, Packaging, Strategic, Doctor, Patient.

**Introduction**

The Indian Pharmaceutical Industry is looking forward to a bright future with contract research business and the new patent regime opening new avenues for several players in the country. Growing consistently at 10% annually over the last five years the expected market size is around US\$ 10 billion for the year 2010.

The Indian Packaging Industry is also growing at a fast pace of 14% annually with an expected turnover of around US\$ 3 billion for the year 2010. With the cost of drug discovery running in several millions of dollars and a huge investment in R&D many pharmaceutical discoveries are now becoming high value and low volume based. In this context the

pharmaceutical packaging assumes a very vital role in delivering a total value product to the customer.

## Literature Review

The UK Institute of Packaging provides three definitions of packaging:

1. A coordinated system of preparing goods for transport, distribution, storage, retailing and end use.
2. A means of ensuring safe delivery to the ultimate consumer in a sound condition at minimum cost.
3. A techno-economic function aimed at minimizing costs of delivery while maximizing sales (and hence profit).

The third definition would include minimizing costs of reusing, recycling or disposing while maximizing sales. Research has shown that it is more effective to adapt the execution of advertising to local preferences as cultural dimensions influence the way in which people perceive (and accept) different advertising forms.

From this perspective it is likely that the same holds for packaging design, as it is a communication tool as well. The results of this research on the influence of culture on the communicative value of packaging design might help brand owners to make decisions on globalization and localization of their brand representatives.

As the borders are growing vaguer and consumers are beginning to look more and more alike. Many products are marketed in a number of different countries — some even worldwide. Here some marketer would consider opt for a local or a global packaging design. In this sense there would be a possibility of a global packaging design (L van den Berg-Weitzel, G van de Laar 2001) [1].

An under explored aspect of the package is its colors and pictures. We have to determine what, if any, impact these aspects have on consumer beliefs regarding important product characteristics.

Research on consumer products (Bone P.F., France K.R 2001) [2] has found that even when very concrete verbal information is used, graphical representations have a significant and long-term effect on product beliefs and purchase intentions. This is studied for pharmaceuticals product (injections) in this study. Ethnography can also be used during the evaluation stage to study market acceptance of the new product or service and how the new product or service should be positioned in the market.

Creating the right branding for a new product or service requires the correct positioning of a product in the market. This can only be done if there is a deep understanding of customer behaviors, beliefs, desires and values and how they relate to the product offering. By the use of ethnography this deep customer understanding can be gained. Once this is known a

marketing message can be created describing how the new product or service provides value and addresses the needs of customers. The marketing message can also be written so that it is in line with the beliefs, desires and values of the customers being targeted ([www.lightminds.co.uk](http://www.lightminds.co.uk))

There appears to be little sustainable design or even eco design work, in either the product or packaging field, that has specifically involved the user, this is surprising given that consumption is a key driver for production. In a market economy, the main responsibility for environmental degradation lies with the consumer. However in reality, ordinary consumers have little knowledge of the links between consumption patterns and their consequences and have little power to affect the market place. In a highly industrialized society, knowledge and responsibility are so diffused throughout the supply chain that no one really feels responsible (Heiskanen, E. and M. Pantzar 1995) [3]. It is understood that value change is needed. However, values are embedded in culture and new values are neither quickly nor easily taken up. As this work involve consumers and their consumer feedback. It must ensure that no behavioral change from consumers is required to realize the sustainability benefits of any product/packaging outcomes.

The role of design as a means of differentiating products and services is increasing as it becomes difficult to sustain competitive advantage through technology alone. Understanding the need of the design activity is evaluated and appreciated right from the idea generation stage through to development, packaging, market positioning and promotion. The span of design over a product's life cycle, encompassing form (appearance), function (performance) and fit (ergonomics), is just one reason why the design function may be located in R&D, manufacturing or marketing; this diffusion of the design activity increases the difficulty of evaluation.

Research has identified several factors influencing the balance between quantitative and qualitative measures of design performance. This has to be based on metrics for the performance of the project with responsibility from a cross-functional team Nixon Bill, (2003) [4].

Packaging can contribute to the competitive advantage of the marketing mix. The findings from this study and the literature review shows the importance of packaging and packaging design for fulfilling multifunctions in relation to logistics and marketing in the supply chain from producer to end consumer. New demands due to changes in consumption patterns and habits are requiring innovative packaging solutions. It takes several years of painstaking research to discover new drugs and involves several millions of dollars both in terms of money, men and machine. It has now become imperative that the drug delivery system should be one which will target the disease and the market accurately so that there would be a reasonable ROI (Rundh Bo 2005) [5].



## Research Design

Data Collection - Secondary data: Information based on Packaging, Marketing strategy and Pharmaceuticals will be collected from various Journals like Journal of Healthcare, Journal of Marketing, Journal of Packaging, Journal of Medical Marketing, Journal of Medical Systems, Journal of Business and Psychology, Journal of Product Innovation Management, PharmaBiz, IDS Packaging, etc.

The secondary data is mainly based on questionnaire survey with the simple stratified sampling consisting of Physicians, Nurses, Healthcare administrators, Patients and relatives of patients.

Sampling: The primary data is collected by the use of questionnaire which covers the four metro cities in India: Mumbai, Delhi Kolkata and Chennai, as these would be a better representation of the population under study.

The sample break up would be as follows

250 customers / patients  $\times 4 = 1000$  Customers

100 Doctors  $\times 4 = 400$  Doctors

Based on experienced experts in this research field it was decided to have at least 400 Doctors to cover the four Metro cities of 100 each.

The Data was collected from the reputed Hospitals, clinics, companies and private practice including consultants and specialists. There were 10 major hospitals selected from the four metro cities. In each hospital 10 doctors were randomly selected from different departments/specialization were selected. The private practitioners were selected at random from the metro cities. The total number of Doctors surveyed was 100 each from the four major cities. The questionnaire was checked with experts and for proper authenticity of Data the visiting cards of the Doctors were collected. The Data were from

Mumbai: KEM, Mumbai Hospital, Tata Memorial, JJ, Cooper, TISS, Rajadhyaksha, Gandhi Nursing, LIC, Amita Nursing, CGHS, Shivneri.

Delhi: Bhatia, Jaipur Golden, MIMS, Singhal Maternity, Guru Nanak, UCMS, GTB, City, Sir Ganga Ram, Taneja Clinic, Safdarjung, Indian Air, Chhabra Medicare, GB Pant.

Kolkata: Sanjivani, P C M H, Ashirbad Nursing, PG, B C Roy Memorial, C C W H Thakurpukur Cancer, M O Dum Dum, IPGMER, SSKM, Calcutta Med.

Chennai: Vijaya Heart Foundation, Raj Nursing, Inst of Cardiovascular, I K, T N Govt, Sri Venkateswara, SBI.

A total of 250 patients were selected from the above hospitals and private practitioners.

This paper looks at the importance of form for the pharmaceutical injection across the four major cities in India, located in the North (Delhi), South (Chennai), East (Kolkata) and West

(Mumbai) which represents the diverse demography in India. The North is influenced by the cultures of Persia, Greece and Middle East invaders who entered India from the North. The East is influenced by the Far East & Chinese influence. The West is the Modern India with the influence of Europeans & lately the Americans. The South is the traditional India having the original Dravidian Culture. We have analyzed the package form so that a strategic offer can be made by the supplier which would give them a competitive edge over the competition based on the demographics of the user.

### Findings of the study

The data was screened for Normality shows that the Form of the Injection showed significance based on the Kolmogorov-Smirnov test for the various users which shows the distribution is mostly significantly different from normal. An analysis shows that skewness and kurtosis score is not zero for which Ln transformation is done before proceeding with the analysis.

**Metro City \* Form Shape Texture - Inj Crosstabulation**

			Form Shape Texture - Inj			Total
			Big Influence	Somewhat Influence	No influence	
Metro City	Mumbai	Count	36	23	33	92
		% within Metro City	39.1%	25.0%	35.9%	100.0%
	Delhi	Count	38	57	5	100
		% within Metro City	38.0%	57.0%	5.0%	100.0%
	Kolkata	Count	30	56	14	100
		% within Metro City	30.0%	56.0%	14.0%	100.0%
	Chennai	Count	13	69	18	100
		% within Metro City	13.0%	69.0%	18.0%	100.0%
Total		Count	117	205	70	392
		% within Metro City	29.8%	52.3%	17.9%	100.0%

Table I

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	60.329(a)	6	.000
Likelihood Ratio	65.114	6	.000
Linear-by-Linear Association	2.154	1	.142
N of Valid Cases	392		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 16.43.

Table II

As seen in the two Crosstab tables I & II

- The Effect of the Form of the Injection is significant among the four big Metro cities in India.

Analysing the Crosstab for the Doctors we find from table III & IV

- The Effect of the Form of the Injection is significant for the General Practitioners (GP) & the Specialists in the Metro cities.

Doctors - GP / Specialist				Form Shape Texture - Inj			Total
				Big Influence	Somewhat Influence	No influence	
General Practioner	Metro City	Mumbai	Count	25	19	26	70
			% within Metro City	35.7%	27.1%	37.1%	100.0%
		Delhi	Count	29	39	2	70
			% within Metro City	41.4%	55.7%	2.9%	100.0%
		Kolkata	Count	19	36	10	65
			% within Metro City	29.2%	55.4%	15.4%	100.0%
	Chennai	Count	10	45	13	68	
		% within Metro City	14.7%	66.2%	19.1%	100.0%	
	Total	Count	83	139	51	273	
		% within Metro City	30.4%	50.9%	18.7%	100.0%	
Specialist	Metro City	Mumbai	Count	11	4	7	22
			% within Metro City	50.0%	18.2%	31.8%	100.0%
		Delhi	Count	9	18	3	30
			% within Metro City	30.0%	60.0%	10.0%	100.0%
		Kolkata	Count	11	20	4	35
			% within Metro City	31.4%	57.1%	11.4%	100.0%
	Chennai	Count	3	24	5	32	
		% within Metro City	9.4%	75.0%	15.6%	100.0%	
	Total	Count	34	66	19	119	
		% within Metro City	28.6%	55.5%	16.0%	100.0%	

Table III

#### Chi-Square Tests

Doctors - GP / Specialist		Value	df	Asymp. Sig. (2-sided)
General Practitioner	Pearson Chi-Square	42.979(a)	6	.000
	Likelihood Ratio	47.693	6	.000
	Linear-by-Linear Association	.782	1	.376
	N of Valid Cases	273		
Specialist	Pearson Chi-Square	20.214(b)	6	.003
	Likelihood Ratio	22.144	6	.001
	Linear-by-Linear Association	1.958	1	.162
	N of Valid Cases	119		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 12.14.

b. 2 cells (16.7%) have expected count less than 5. The minimum expected count is 3.51.

Table IV

In case of the GP's from Delhi there is a big influence (41.4%) while prescribing pharmaceutical injection based on its package. This is also seen in the prescription by the specialists from Mumbai who are influenced in a big way (50%) for prescribing the pharmaceutical injection based on its package.

Doctors - Specialization			Value	Asymp. Std. Error(a)	Approx. T(b)	Approx. Sig.
Physician	Nominal by Nominal	Phi	.300			.000
		Cramer's V	.300			.000
	Ordinal by Ordinal	Gamma	.438	.090	4.548	.000
	N of Valid Cases		201			
Surgery	Nominal by Nominal	Phi	.347			.355
		Cramer's V	.347			.355
	Ordinal by Ordinal	Gamma	.207	.300	.673	.501
	N of Valid Cases		27			
Dental Surgeon	Nominal by Nominal	Phi	.690			.015
		Cramer's V	.690			.015
	Ordinal by Ordinal	Gamma	1.000	.000	1.073	.283
	N of Valid Cases		22			
Obs & Gynac	Nominal by Nominal	Phi	.360			.585
		Cramer's V	.360			.585
	Ordinal by Ordinal	Gamma	-.056	.432	-.129	.897
	N of Valid Cases		15			
Orthopaedic	Nominal by Nominal	Phi	.453			.520
		Cramer's V	.453			.520
	Ordinal by Ordinal	Gamma	-.385	.571	-.586	.558
	N of Valid Cases		11			
Cardiologist	Nominal by Nominal	Phi	.892			.005
		Cramer's V	.892			.005
	Ordinal by Ordinal	Gamma	.895	.111	2.352	.019
	N of Valid Cases		16			
Ophthalmologist	Nominal by Nominal	Phi	.645			.343
		Cramer's V	.645			.343
	Ordinal by Ordinal	Gamma	.538	.433	1.175	.240
	N of Valid Cases		8			
Dermatologist	Nominal by Nominal	Phi	.707			.368
		Cramer's V	.707			.368
	Ordinal by Ordinal	Gamma	.333	.703	.447	.655
	N of Valid Cases		4			
Paediatric	Nominal by Nominal	Phi	.200			.698
		Cramer's V	.200			.698
	Ordinal by Ordinal	Gamma	-.120	.634	-.192	.848
	N of Valid Cases		18			

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

Table V

The Table V shows that among the specialists the Physician, Dental Surgeon and Cardiologists are significantly influenced by the packaging of the pharmaceutical injection which induces them to prescribe the product.

On surveying the patients there was significance from Table VI & VII on the four major cities in India on the effect of the form of the injection package on the treatment.

**Metro City \* Effect form shape texture - Inj Crosstabulation**

			Effect form shape texture - Inj			Total
			Positive effect	No effect	Negative effect	
Metro City	Mumbai	Count	96	128	15	239
		% within Metro City	40.2%	53.6%	6.3%	100.0%
	Delhi	Count	84	145	21	250
		% within Metro City	33.6%	58.0%	8.4%	100.0%
	Kolkata	Count	188	62	0	250
		% within Metro City	75.2%	24.8%	.0%	100.0%
	Chennai	Count	74	143	33	250
		% within Metro City	29.6%	57.2%	13.2%	100.0%
Total		Count	442	478	69	989
		% within Metro City	44.7%	48.3%	7.0%	100.0%

Table VI

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	143.892(a)	6	.000
Likelihood Ratio	157.576	6	.000
Linear-by-Linear Association	.030	1	.862
N of Valid Cases	989		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 16.67.

Table VII

Analysing the gender of the patients on the effect of form of the injectible packaging it was found from Table VIII & Table IX that both the males from Kolkatta (76.6%) and the females from Kolkatta (71%) had a positive effect on the treatment.

Metro City \* Effect form shape texture - Inj \* Patient - Gender Crosstabulation

Patient - Gender				Effect form shape texture - Inj			Total
				Positive effect	No effect	Negative effect	
Male	Metro City	Mumbai	Count	62	80	7	149
			% within Metro City	41.6%	53.7%	4.7%	100.0%
		Delhi	Count	63	98	14	175
			% within Metro City	36.0%	56.0%	8.0%	100.0%
		Kolkata	Count	144	44	0	188
			% within Metro City	76.6%	23.4%	.0%	100.0%
		Chennai	Count	30	77	22	129
			% within Metro City	23.3%	59.7%	17.1%	100.0%
	Total		Count	299	299	43	641
			% within Metro City	46.6%	46.6%	6.7%	100.0%
Female	Metro City	Mumbai	Count	34	48	8	90
			% within Metro City	37.8%	53.3%	8.9%	100.0%
		Delhi	Count	21	47	7	75
			% within Metro City	28.0%	62.7%	9.3%	100.0%
		Kolkata	Count	44	18	0	62
			% within Metro City	71.0%	29.0%	.0%	100.0%
		Chennai	Count	44	66	11	121
			% within Metro City	36.4%	54.5%	9.1%	100.0%
	Total		Count	143	179	26	348
			% within Metro City	41.1%	51.4%	7.5%	100.0%

Table VIII

## Chi-Square Tests

Patient - Gender		Value	df	Asymp. Sig. (2-sided)
Male	Pearson Chi-Square	122.217(a)	6	.000
	Likelihood Ratio	130.878	6	.000
	Linear-by-Linear Association	.692	1	.406
	N of Valid Cases	641		
Female	Pearson Chi-Square	31.321(b)	6	.000
	Likelihood Ratio	34.904	6	.000
	Linear-by-Linear Association	.771	1	.380
	N of Valid Cases	348		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 8.65.

b. 1 cells (8.3%) have expected count less than 5. The minimum expected count is 4.63.

Table IX

## Analysis of the Findings

Based on the findings we conclude that

A) GP's from Delhi which have background of Greece & Persian cultures are influenced in a big way while prescribing pharmaceutical injection based on its package. The specialists

from Mumbai with a predominant Western culture are influenced in a big way for prescribing the pharmaceutical injection based on its package.

B) Among the specialists the Physician, Dental Surgeons and Cardiologist are significantly influenced by the packaging of the pharmaceutical injection which induces them to prescribe the product.

C) Analysing the patients it was found that both the males and the females from Kolkatta which has a predominant Far East / Chinese cultural influence had a positive effect for the injectible packaging on their treatment.

## Biography

Matthew Thomas has specialized in Marketing Management from JBIMS, Materials Management from Welingkars, Supply Chain Management from ICFAI & IT from Symbiosis. He is presently pursuing his Doctorate (Ph.D) in Marketing Management under the guidance of Dr. R K Srivastava Prof Emeritus Somaiya Institute of Management & Research (SIMSR).

He has over 25 years of working experience having worked with Japanese, European and several Indian companies. He has been involved in international marketing & operations including strategic planning for various specialty products involving various international and domestic customers like Novartis, Mitsui, Ranbaxy, Shasun, Reliance Infocom etc. He has handled a wide gamut of functions having worked in fields of market research, product sourcing, development, sales, negotiations, logistics & administration.

He has four years of teaching experience at Mumbai University teaching the core subjects of International Business, Strategic Management, Environment Management and Productivity.

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## GREEK ETHICAL CONSUMERS: WHO ARE THEY?

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### Abstract

This paper presents the results of a research study conducted in Thessaloniki, Greece focusing on the Positive type of Ethical Consumption namely buying ethical products. The results of a survey among 494 Greek consumers indicate a rather low engagement of the sample in ethical choices. The choices more frequently made are donation and repair of used products, local products preference and use of public transportation instead of private cars. More than half of the consumers have bought ecological light bulbs and rechargeable batteries while almost half of them have installed natural gas and utilized heat insulation. Positive Ethical Consumption was found to be influenced positively by education as well as by the consumers' gender (women) and age (30-39 years old). With regard to values, the variable of Universalism was found to be both correlated positively and able to predict Positive Ethical Consumption. Another noteworthy relationship was found with Benevolence.

### Introduction

Ethical consumerism concerns the consumer behaviour that is affected by ethical criteria. Ethical is the consumption that takes into account the societal norms or, in other words, '*what is good for the society*' (Smith, 1990). This type of behaviour does not concern individual satisfaction of needs and wants exclusively, as it simultaneously aims at the overall social welfare (Crane, 2001). In fact, ethical consumption includes a wide-range of consumers' activities. In an effort to categorise all possible activities in a manageable way Tallontire *et al.* (2001) proposed three forms of ethical consumerism namely positive, negative and consumer action, which was later named 'discursive' by Micheletti *et al.* (2005). Ethical consumption can not be considered as a topic of the mainstream within the marketing academic community. However, there have been claims in the literature that moral values will be a significant driving force of the buying or/and not-buying behaviours among consumers of the western societies in the near future (De Ferran and Grunert, 2007).

In Greece research has been developed towards one of the positive ethical consumption aspects, namely the Ecologically Conscious Consumer Behaviour (Tilikidou, 2001; Tilikidou, --), while recently research effort was put on the fair-trade market (Tilikidou and Delistavrou 2007; Delistavrou and Tilikidou, 2009a and 2009b). It is argued therefore, that there is much left ahead to be understood with regard to the overall ethical consumerism and its adoption among the Greek consumers.



This paper presents the results of a study conducted in Thessaloniki, Greece on the topic of the positive type of ethical consumption; it includes evidence about the extent to which positive ethical behaviours are adopted by Greeks, as well as some evidence with regard to which demographics and values are able to influence these consumption choices.

## Literature Review

The positive ethical consumption refers to purchasing goods with positive ethical attributes such as organic products, fair-trade products, cosmetics not tested on animals, energy saving appliances, etc. The ecologically related consumer research has been the mostly examined aspect of the broader concept of the positive ethical consumption. In fact, the roots of ecological consumer research stand back in seventies. The review of the research published during the last three decades reveals that demographics, attitudes and values have been used as predictors of this type of behaviour. With regard to demographics the results seem contradictory. Age has been found in a number of cases to influence positively the environmental purchasing (Balderjahn, 1988; Scott and Willits, 1994; Roberts, 1996; Gilg et al., 2005) but there are other studies in which no relationship was found (Antil, 1984; Bohlen et al., 1993; Pickett et al., 1993; Shrum et al., 1995). Income too has indicated positive relationships in some cases (Balderjahn, 1988; Arcury, 1990; Scott and Willits, 1994; Tilikidou, 2001 and 2007; Korfiatis et al., 2004; Tilikidou and Delistavrou, 2005) or no relationships in other cases (Antil, 1984; Pickett et al., 1993; Shrum et al., 1995). The same applies with regard to education as it has been found to be positively related to behaviour in many studies (Balderjahn, 1988; Arcury, 1990; Scott and Willits, 1994; Roberts, 1996; Tilikidou, 2001 and 2007; Korfiatis et al., 2004; Tilikidou and Delistavrou, 2005; Gilg et al., 2005) or unrelated in other studies (Antil, 1984; Vining και Ebreo, 1990; Bohlen et al., 1993; Pickett et al., 1993; Shrum et al., 1995). With reference to attitudes several constructs have been used. Positive relationships have been found between ecological behaviour and environmental concerns (Crosby et al., 1981; Antil, 1984; Balderjahn, 1988; Scott and Willits, 1994; Shrum et al., 1995; Schlegelmilch et al., 1996; Roberts, 1996; Minton and Rose, 1997). In Greece, the pro-environmental purchasing behaviour has been found to be affected positively by pro-environmental attitudes (Tilikidou, 2001) and negatively by environmental unconcern (the later relationship being stronger) (Tilikidou and Delistavrou, 2005; Tilikidou, 2007). In reference to the individual differences it is noted that there is a large bin of personality variables namely values, social or political beliefs etc., which have been utilised to examine their impact upon ecological behaviour. The variables found in the relevant literature are: alienation (Crosby et al., 1981; Balderjahn, 1988; Pickett et al., 1993), locus of control over politics (Balderjahn, 1988; Shrum and McCarty, 1998; Cleveland et al., 2005; Carrus et al., 2007), political orientation (Bohlen et al., 1993; Scott and Willits, 1994; Roberts, 1996; Schlegelmilch et al., 1996), individualism and collectivism (Shrum and McCarty, 1998), universalism (Thøgersen and Ölander, 2002 and 2003). In Greece, the relevant research revealed statistically significant moderate relationships between pro-environmental

purchasing behaviour and both locus of control over politics (positive) and materialistic values (negative) (Tilikidou and Delistavrou, 2005).

The fair-trade purchasing behaviour has been investigated in relevance to several ethical issues, such as slavery (McDonagh, 2002), environmental protection (Lureiro and Lotade, 2005; De Ferran and Grunert, 2007), labour standards and discrimination (Rode et al., 2008). With regard to demographics, Dickson (2005) found that not married women are more willing to purchase fair-trade products. Nicholls and Lee (2006) argue that positive attitudes towards fair-trade products do not lead to high intentions to purchase these products in contrast to the findings of research conducted in Greece where attitudes towards fair-trade and fair-trade purchasing intentions have been found to correlate positively (Delistavrou and Tilikidou, 2009a and 2009b). There are many studies to conclude that there are beliefs and values, which might influence purchasing choices for the fair-trade products, such as environmental concern, respect for human rights (De Ferran and Grunert, 2007), concern for working conditions (Strong, 1996), idealism (De Pelsmacker et al., 2003), ethical obligation and self-identity (Shaw et al., 1999, 2000, 2003). In Greece the relevant research conclude that fair-trade purchasing intentions is positively influenced by the universalism and collectivism (Delistavrou and Tilikidou, 2009a and 2009b).

### **Objectives**

- To investigate the degree to which the Greek consumers adopt positive ethical consumption choices
- To examine the impact on demographics and values upon the positive ethical consumption

### **Methodology**

#### **Sampling**

A structured questionnaire was administered to 500 households of Thessaloniki, Greece urban area and provided 494 usable questionnaires. Respondents were approached through personal interviews. The sampling method was a combination of the two-stage area sampling and the systematic sampling (Tull and Hawkins, 1993, p. 544; Zikmund 1991, p. 471).

#### **Variables Measurement**

The Positive Ethical Consumption 1 (PEC1) was estimated through a multi-item variable of 17-items, measured on a 5-point frequency scale from 0 to 4. (0=Never, 1=Almost never, 2=Several times, 3=Almost Always, 4= Always). This measure was for the first time constructed and utilized. It includes items generated from the pro-environmental purchasing scale, from the pro-environmental post-purchasing scale together with items for fair products among others, in an effort to encompass all possible ethical choices that may be adopted on a frequent basis. The reliability of the measure was examined through Cronbach's alpha and with a value of 0.8076 indicated very satisfactory internal consistency. To obtain wider

information with regard to positive ethical consumer choices, which cannot be measured on a frequency basis, 11 single items were added in the questionnaire asking the respondents if they have ever done each one of a list of choices, such as heat insulation on the roof, or natural gas installation etc. In total these items were named Positive Ethical Consumption 2 (PEC2) and were measured on a Yes or No, nominal response scale.

With regard to demographics age, education, gender and income were measured on the N.S.S.G. scales. The Schwartz's (1992) list of values was incorporated. This list is comprised by ten sub-measures all measured on a 5-point evaluation scale from 0 to 4 (0=Not At All, 1=Little, 2=Enough, 3=Very Much, 4=Absolutely). The respondents are asked "how much the character described in each item is similar to your own".

## Results

The demographics of the sample were tested through chi-square with regard to the population parameters and no statistically significant differences were found.

The multi-item measure of Positive Ethical Consumption 1 (PEC1) takes theoretical values from 0 to 68; providing a Mean of 24.9845 indicated a rather low engagement of the sample in ethical choices. The respondents in total declared that they many times donate old things (P16), while they several times repair already used products (P17), prefer local products (P07) and use public transportation instead of their private car (P12) (Table 1). It is to be noted that an approximately 30% of the respondents was found, who declared to have adopted all of the positive ethical choices several times (see Table 1). With reference to the single positive ethical buying actions (PEC2), it was indicated that the 65% of the sample has bought light bulbs, the 54% rechargeable batteries, the 50% has installed natural gas and the 45% utilized heat insulation (Table 1).

		Overall engagement					
	Never	Almost never	Several times	Almost Always	Always	Missing	Total
%	10.7	35.0	27.7	4.7	0.2	21.7	100.0
		Positive Ethical Consumption 1					Mean Std. Dev.
P01		Buy organic food and drinks					0.98 1.04
P02		Buy organic fruit and vegetable					1.06 1.09
P03		Buy free range eggs and poultry					1.64 1.20
P04		Buy ecological detergents					0.83 1.07
P05		Buy recycled paper products					1.02 1.10
P06		Buy ecological toiletry					0.68 1.04
P07		Buy local traditional products					2.06 1.14
P08		Buy fair-trade products (e.g. coffee, sugar, drinks, etc.)					1.44 1.44
P09		Buy wooden or paper toys instead of plastic					1.20 1.25
P10		Avoid buying bottled water					1.17 1.49
P11		Use fabric bags for shopping					1.11 1.20
P12		Use public transportation instead of my private car for environmental reasons					2.03 1.38
P13		Reduce my car speed to reduce exhaust					1.39 1.30
P14		Buy products and services that have been produced or/and delivered by companies adopting Corporate Social Responsibility (charity, sponsorship to general interest tasks/projects, hygiene and safety programmes, volunteerism and environmental protection programmes)					1.61 1.01
P15		Reuse a product or its packaging waste instead of throwing it to the rubbish (food cups, bags, wrapping paper etc.)					1.83 1.25
P16		Donate old clothing. shoes. toys and books					2.74 1.18
P17		Repair or maintain used products instead of replacing them with new (clothes, furniture, electrical equipment, linen etc)					2.04 1.20
		Positive Ethical Consumption 2					
PI01		Energy efficient appliances					0.27 0.45
PI02		Energy efficient light bulbs					0.65 0.48
PI03		Rechargeable batteries					0.54 0.50
PI04		Ecological paint					0.32 0.47
PI05		Hybrid car					0.02 0.15
PI06		Solar heater					0.37 0.48
PI07		Green roof					0.03 0.18
PI08		Heat insulation on the roof or insulating frames					0.45 0.50
PI09		Natural gas installation					0.50 0.50
PI10		Water conservation system for watering the garden					0.10 0.30
PI11		Photovoltaic systems					0.02 0.13

Table 1: Positive Ethical Consumption

The ANOVAs One-way were calculated for PEC1 across the categories of each one of the demographic variables. Statistically significant relationships ( $p < 0.05$ ) were found with gender (women), age (30-39 years old) and education (post-graduates).

The partial Pearson's correlations indicated statistically significant relationships at  $p < 0.001$  between PEC1 and some of the sub-measures of the Schwartz's list of values. More specifically, a positive relationship was found with Universalism ( $r = 0.298$ ), which can be characterized moderate; positive, weak relationships were found with Benevolence ( $r = 0.223$ ), Security ( $r = 0.152$ ) and Stimulation ( $r = 0.102$ ) while a negative, weak relationship with Power ( $r = -0.134$ ) was also indicated.

The multiple regression analyses (stepwise method) revealed that only Universalism was entered in the analysis and this can explain just the 8.6% (adjusted R square) of the variance in Positive Ethical Consumption 1. The relevant resulting equation is:

$$\text{Positive Ethical Consumption 1} = 11.632 + 0.298 \text{ Universalism}$$

### **Discussion, Conclusions and Future Research Suggestions**

With regard to the positive ethical consumption the choices that obtained the higher consumers' preferences might be argued as driven mostly by traditional (donate, buy local) or financial motives (repair, reuse) than by ethics. Also, in a city full of private cars and annoying traffic jams, the high score that concerns preference of public transportation for environmental reasons is to be questioned.

As expected (mainly due to the review of the literature), ethical consumers are a minority among Greek consumers. They were found to be engaged positively in rather conservative, traditional choices like donation and maintenance of already used products, buy local and use public transportation. Light bulbs, rechargeable batteries and natural gas installations seem to have gained a considerable portion of the market, while insulation seems to have potentials.

With reference to their demographical profile, ethical consumers were all found to be better educated; women of 30-39 years old were found to be mostly engaged in positive ethical choices. With regard to the examination of values this study added some evidence to the previous findings of values that are able to describe or predict pro-environmental or fair behaviours in the Greek market. More specifically it seems that consumers who hold higher universalistic values than their counterparts are those who adopt more than others the positive ethical behaviours. Moreover, Universalism is the only sub-measure of the Schwartz's (1992) list of values that was found able to predict the Positive Ethical Consumption to a limited extent. In addition, benevolence, security and stimulation seem to play their own positive role in the profile of ethical consumers, while the negative sign found for the sub-measure of power indicates that ethical consumers are not seeking for individual power in the society.

Of course, there is plenty in front of future research in order to understand better the ethical consumption and its motivation basis. Firstly, there is a need of clarifying the contents and the definitions of the ethical consumerism as a concept as well as of the three types of ethical

consumption in people's every day lives. Future research should also face decisions that concern the adoption or/and adaption of a consumer behaviour model adequate for examining the ethical consumption in Greece. Qualitative research methods should be employed to fulfil the above direction. Qualitative tools (in depth interviews, focus groups etc) will be also useful during the early stages of the development of reliable and valid measures, adequate for a future large-scale quantitative survey in order to obtain better measurement accuracy. In this study demographics and values were suggested as possible influential factor of the behaviours under examination. Additional values or other possible motives (social or individual) might get employed to assist in explaining ethical consumption in more depth. Last, special care should be taken by a future research study with regard to the social desirability effect upon a topic like ethical consumption, which is socially desirable in nature and makes measurement accuracy more difficult than it usually is in consumer research. In overall, the main question to be faced is whether the present minority of ethical consumers is going to get increased in the foreseeable future or not like Carrigan and Attalla (2001) predicted. To be honest, our own predictions are rather pessimistic too, due to the fact that ethical choice might be considered as luxurious choices in an era of violent economic crisis and cruel financial problems that the people of Greece has to face.

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## THE 'SWOT CLOCK' STRATEGIC BEHAVIOR

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### **Abstract**

Corporate Strategy is known in the late 20th century and early 21st century as one of the cornerstones in the process of strategic management of corporations, private firms, NGO's and public sector organizations. In an effort to amend these shortcomings, the author suggests a rationalistic typology based on the 'SWOT Strategic Clock' (henceforth: the 'CLOCK' model). The methodology proposes a strategy formula which embeds Leading Strategy (LS) as dependent variable with Weighted Power Intensity (WPI) as independent variables. The CLOCK behavior methodology reflects the affected change of the Leading Strategy (LS) strategy POINTER over the time series scale factor. Principles of the suggested approach, emphasizing, through comparison, the similarity between the features of the CLOCK model and the well-known models, such as the Product Life Cycle (PLC) and the Boston Consulting Group (BCG).

Recommendations are made for further investigation through academic and applied researches which can enrich current Know-How and understanding. Business and organizations can gain more effective and efficient management tool in their strategy formulation system.

The 'CLOCK' model opens a wide window to a broad variety of academic and empiric studies that could enrich and deepen the existing knowledge on applying the SWOT methodology. The model challenges researchers to initiate further investigations in the strategy formulation arena, in particular when adjustment to the difficult competitive conditions of the business environment in the 21st century is nowadays a necessity.

The 'CLOCK' methodology suggests a rationalistic typology for managers and decision makers in considering the firm's strategic direction. The proposed model is suitable for application mainly by Small Mid Enterprises (SME's), but also by large businesses, mainly in the short and mid term.

**Keywords:** SWOT, 'CLOCK', Leading Strategy, 'POINTER'

### **Introduction**

The aftermath of WWII contained many changes, not only in the political, social, economic, technological and other aspects, but also in the thinking modes prevailing in the area of management science & strategy formulation. These trends led, in the early 1960's, to a situation in which it was possible to find in almost all of the companies contained in the

Fortune 500 list an appointment of a functionary in charge of corporate strategic planning. At that time, the unit of strategic planning focused mainly on long-term planning.

According to the SWOT approach, the interaction between the organization's capabilities and resources was examined from the view point of strengths and weaknesses (SW) and between the opportunities and threats (OT) identified in the organization's environment. The external analysis of the environmental forces, focused on identifying opportunities and threats created by the business environment, in an effort to find an answer to the strategic question: "What should the organization be doing?" On the other hand, internal analysis, that is, analyzing the organization's internal forces, focused on positioning resources (tangible) and capabilities (intangible) from the view point of its strengths and weaknesses. The intra-organization analysis is trying to come up with an answer to the strategic question: "What can the organization do?"

The SWOT approach is more common among the businessmen community because of its intelligibility and applicability at the initial level of consolidating the organization's strategy. The approach is perceived as applicable mainly at the organization's micro environment level and in the short and medium term. At the same time, some organizations have introduced this approach in consolidating their long-term business strategy. It is still very intensively implemented as indicated by Elbanna (2010), where the SWOT methodology was found to be one of the 3 most commonly used as a strategic tool in the United Arab Emirates.

## **Literature Review**

Christensen, Berg and Salter (1976) proposed a Grand Strategy Matrix (GSM) model, which structures & implies a four X-Y axis matrix quarters, resulting from the possible mutual combinations between the business's two states ('strengths' and 'weaknesses') and its business surrounding ('opportunities', 'threats').

Weihrich (1982) developed SWOT's naïve model, and later David (1986) suggested a quantitative model for analyzing and consolidating strategies for an organization that adopts the principles of the GSM model, called QSPM (Quantitative Strategic & Planning Matrix) in an effort to overcome the shortcoming of subjectivity in evaluating the factors that should be used in consolidating the organization's strategies. David (2007) presented in his book other SWOT-related models, such as External Factor Evaluation (EFE), Internal Factor Evaluation (IFE), General Electric (GE), and others.

On the basis of the GSM model, Rowe, Mason, Dickel and Snyder (1989) developed the Strategic Position & Action Evaluation (SPACE) model. The model deals with the problem of positioning the organization's strategic direction, offering the consolidation of strategic alternatives that are based on four dimensions: the strength of the industrial branch, stability of the business environment, competitive advantage and the organization's financial robustness.

Porter (1990, 1988) presented his concept to competitive positioning, using the SWOT approach, especially in the context of the entry and exit of substitute competitors and products to the industry and barriers to entry and exit, which he calls 'Threats' or 'Opportunities'. In the same vein, he also views the customers' and suppliers' bargaining power as a kind of 'Threat' and 'Opportunity'. Further to that, Mintzberg, Alsterand and Lampel (2006) stress that the SWOT approach is suitable for the Positioning school at the business' micro level.

Severe competition conditions and the globalization trends emerging in the late 20th century stimulated the development of new approaches and models and the upgrading of existing models in the area of strategic management. In this context, the approach of the Balanced Score Card (BSC) developed by Kaplan and Norton (1996, 2001, 2004) is noteworthy.

Another substantial and significant contribution to cope with the difficulty of subjectivity in evaluating the parameters that should be included in the SWOT analysis and their priority, was made by Bernroider (2002) in a study on the computer software industry in Austria.

In attempt to assess the effect of environmental, economic and social factors Shrestha, Janaki Alavlapati and Kalmbacher (2004) applied the SWOT approach in combination with the Analytic Hierarchy Process (AHP). The SWOT-AHP allows to defined the hierarchical structure of factors and to evaluate factors in pairs, and to quantify the relative importance of each factor to the adoption decision. This was based upon preference data from selected opinion leaders and a rating scale to weigh each factor and to relate it to the other was applied.

Thus, one of the challenges facing researchers and managers in the field of strategy is the need for objective and quantitative presentation of the data base in consolidating the firm's strategy. Chang and Huang (2006), emphasize that in the past, most of the studies published presented simplistic approaches while only a few employed quantitative approaches. They conclude that the result of strategic analysis according to the SWOT approach was often superficial, shallow, and inaccurate, mainly because it was based on the qualitative analysis of internal and external factors. The authors applied a complex, quantitative and analytical model in a comparative analysis of strategic positioning of seven ports in China and South-East Asia, including the Hong-Kong Port, Shanghai, and others. The analysis is based on 12 internal factors and on seven external factors of quantitative information drawn from official publications and identifying behavioral situations of the environment, such as geographic location, political stability, macro-economy measures, and so on. The internal factors reflect mainly tangible elements such as storage and handling spaces, efficiency in handling cargoes, customer tariffs, equipment and so on. Taken from Chang and Huang study, Figure 1 presents the change occurring in the strategic positioning of each of the ports from the year 2000 up to 2004, by an arrow with direction and intensity.

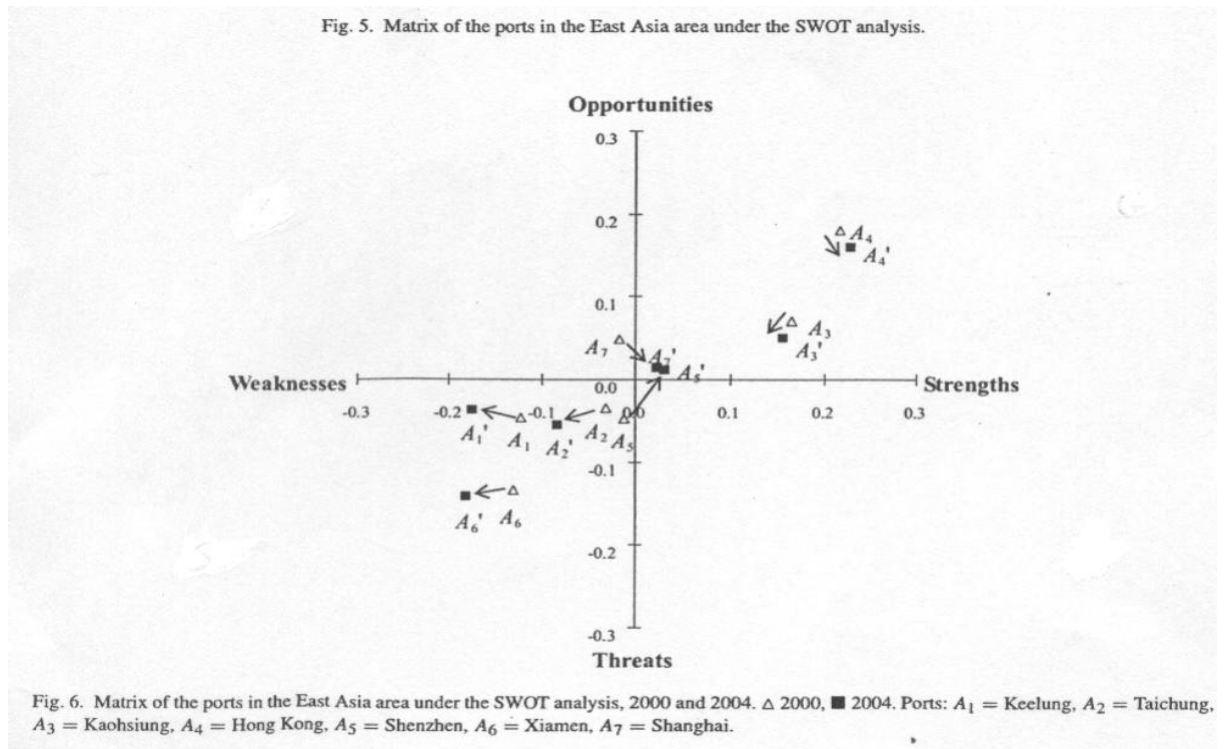


Figure 1: Change in strategic positioning between 2000 and 2004 in South-East Asian ports

According to the legend of the figure, Hong Kong Port ( $A_4$ ) moves within the first quadrante and the port maintains its competitive advantage. In comparison, Kaohsiung Port ( $A_3$ ) has weakened and Shenzhen Port ( $A_5$ ) was, between the years of 2000–2004, in a process of moving from the third to the first quadrante, building its competitive advantage. On the other hand, in the third quadrante, representing strategic competitive weakness (weaknesses and threats) are positioned the ports of Taichung ( $A_2$ ) and Xiamen ( $A_6$ ) that are currently in the process of deteriorating due to strategic erosion.

The main contribution of this study is that it provides an indication of the competitive positioning of each port at any given time. The study was conducted in two stages, the first in the year 2000 and the second in 2004, which allows to identify the trend of the strategic direction. The study should be considered as a breakthrough because it adds the time axis variable, not just as a specific positioning of competitive advantage, but also as an indicator of direction and development process of the strategy.

Against the many advantages found in Chang and Huang (2006) model, it has one salient drawback, concerning its applicability at the level of medium and small businesses. The structure of the model and its application are of the highest level of sophistication and complexity, demanding knowledge and the effective capabilities of data collection and processing. These are more suitable to large businesses that are able to carry the high costs of this kind of research. Such requirements pose a large difficulty and raise a higher hurdle when applied to medium and small enterprises. SME's expect a more practical answer that

will allow them to achieve similar results to those of Chang and Huang's (2006) model, on the one hand, but that the process of consolidating and shaping strategy will be relatively short and simple in its structure and application, on the other hand.

Yuksel, Dagdeviren (2007) highlighted the fact that the SWOT analysis does not provide an analytical means to determine the importance of the identified factors. They argue that although the analysis successfully pinpoints the factors, but individual factors are usually described briefly and generally which leads to deficiencies in the measurement and evaluation steps. Although the AHP method assumes that the factors presented in the hierarchical structure are independent, the assumption may be inappropriate in light of certain internal and external environmental effects. In their perspective it is necessary to employ a methodology that measures and takes into account the possible dependency among the factors. They propose to apply the Analytic Network Process (ANP) which allows measurement of the dependency among the strategic factors in addition to the application of the AHP methodology. They comment that the mathematical model is very much applicable, it is still the problematic situation that the priority values for the factors are determined by the judgment of experts which affects the validity of the model. On the other hand, they argue that the fact that the values of the pair wise comparative factors change depending on the views of experts, should not be a reason for rejecting the validity of studies using the suggested ANP model. A very interesting outcome of the study was that the strategy orders obtained by the ANP method and the AHP method were found to be different. As a conclusion to that, future research should seek to consider the effect of possible dependencies among the SWOT sub-factors themselves. In addition, fuzzy numbers can be introduced both in the AHP and ANP methods to more effectively analyze in the pair wise comparison matrices.

The application of fuzzy numbers in the SWOT analysis discipline was introduced by Kuo-liang and Shu-chen (2008). The fuzzy quantified SWOT analytical procedure is proposed to evaluate the environmental relationships according to the competitive degree in accordance with the grand Strategy Matrix (GSM) model. The research applies fuzzy analysis for AHP to determine the relative importance of the SWOT factors. The fuzzy quantified SWOT procedure provides a reference for developing strategy such as the GSM model. The comparison of the environmental analysis methods of Resource-Based View (RBV), Competitive Profile Matrix (CPM) the traditional SWOT and the fuzzy quantitative SWOT method, not only precisely shows the competitive position but also can propose suitable competitive strategies in accordance with accepted strategy analysis such as the GSM matrix.

Further research in line with the application of the AHP methodology was presented by Arslan & Deha (2008). The use of SWOT has been implemented successfully for ships that are designed to carry liquid chemicals in bulk. Effort was made to explore ways and means of converting possible Threats into Opportunities and changing Weaknesses into Strengths for

safer tanker operation. The AHP approach is applied in conjunction with the SWOT methodology. AHP is a general theory of measurement based on some mathematical and psychological foundations. AHP can deal with both qualitative and quantitative attributes and it has been found to be useful decision analysis technique and it has been applied in cases dealing with strategic planning. Based upon the results of the study, the authors are convinced that the suggested SWOT-AHP methodology can be an acceptable basis for formulating strategy designed to minimize human error, accidents and incidents, and defects of shipboard operations.

A novel innovation in the strategy formulation systems based upon the SWOT methodology is presented in a paper published by Zhang and Razmi (2010). Quantified SWOT is applied in the context of suppliers selection. They emphasize that the problem of pair wise comparisons of the AHP and the ANP systems are remained. More over, integration of SWOT combined with fuzzy logic and Linear programming models is proposed as a decisional model for supplier selection which includes both qualitative and quantitative factors. It is indicated that for the first time fuzzy logic and quantitative SWOT have been composed, where both quantitative and qualitative factors have been considered, and the capacity of warehouse and minimum Order Quantity are taken into account as constraints. Although mathematical and Linear Programming models are employed, the SWOT internal and external factors list and the weights of the qualified linguistic variables had been determined by experts in a Brain Storming sessions and by decision makers subjective opinions of priorities between criteria.

### **The 'SWOT CLOCK' Strategic Behavior Model:-Methodology & Structure**

Since its introduction in the 1960's and early 21st century, the SWOT approach was accompanied by the presentation of various models that attempted and are still attempting to come up with answers to the weaknesses of the approach, on the one hand, and to enrich the knowledge and effective applicability, on the other. Managers are aware of the fact and recognize that strategy is influenced more by events in the short-term, due to time constraints, which force them to react faster, and also by their personal intuition, among other parameters. The Hi-Tech environment, where events follow each other at high frequency and intensity, is only one characteristic example of such situations. The reciprocal and integrated system of "environment – firm" is a dynamic system that changes continuously, constitutes a considerable number of stakeholders, and is exposed to events of high intensity and frequency. The higher the frequency of the events and their intensity, the more turbulent and risky the environment becomes. Therefore, especially for SME's scale enterprises which are active in such an environment, immediate decisions are required, mainly in the short term; thus the application of the SWOT approach in consolidating their business strategy becomes increasingly attractive.

Along with the advantages of SWOT, several major drawbacks can be discerned:

- To large an extent, the model is based on 'qualitative' and 'intuitive' findings and assumptions by decision makers. Such reliance is not supported by 'quantitative' data of the environment and the organization's characteristics. This drawback is particularly marked when the overall picture is not easily contrasted in "black and white" colors and the "gray" area is relatively large. Greater sensitivity is then required in analyzing the system to reach appropriate conclusions.
- Sometimes, it seems that because of time constraints, forcing fast responses, there is a tendency towards over-simplification of the forces that is not always appropriate to the actual situation.
- The definition of the SWOT factors is often made intuitively.
- In its essence, the SWOT approach does not analyze situations in which a change process occurs in the strategic positioning on the time axis, except this of Chang and Huang (2006) pioneering study.

Businesses and researchers, who were active in applying the principles of the SWOT approach, have encountered several difficulties, including the following:

- Determining the number and type of parameters to be employed Subjectivity in evaluating the contribution of the parameters influencing the strategy.
- The suitable time frame to which the SWOT approach refers, i.e. Short medium or long term.
- The business level, in which the SWOT approach is employed, i.e. small, medium and large businesses.

To find an answer to the challenge of these drawbacks, the author suggests the application of the CLOCK model. The model presents an analytical and rationalist approach to the naive SWOT approach, as represented by Weihrich (1982). In addition, the model provides an answer to the salient drawback of the complexity and difficulty in applying Chang and Huang's (2006) model, by simplifying the strategy-shaping process at the small and medium enterprise level.

The CLOCK model offers a series of steps and principles in consolidating a business strategy:-

**Principle no. 1** – the generic integrated behavior: there is a generic behavior, reflecting the interaction between 'business environment – organization,' whose characteristics exist and are derived from the naïve model, as follows:

- In each given moment a situation exists in the firm's environment that simultaneously more opportunities can be seen than threats, and vice versa. .

- In each given moment a situation exists in the firm that more strengths can be seen than weaknesses, and vice versa. .

**Principle no. 2** – defining the independent variables to calculate the intensity of power: the power intensity of the four variables (Opportunities, Threats, Strengths and Weaknesses) could be evaluated by using a matrix (see Table 1 and Table 2) that is based on the following components:

- Influencing Factor (IF): the factor according to which the characteristics of the organization and/or its business environment are analyzed. The list includes factors that in the management and decision makers' view influence the organization's level of power ('weaknesses', 'strengths') and environmental forces ('opportunities', 'threats'). In general, these factors reflect the perception of the organization's stakeholders. This is also expressed in the studies by Bernroider (2002) and Lee & On Ko (2000). Establishment of the IF can be done by the Delphi approach which reflects individual management perception. After establishment, the list of Influencing Factor is kept constant in the CLOCK strategy formula.
- Relative Weight (RW) of the influencing factor: the importance and influence of any factor that the organization considers to be important in determining and consolidating its strategy. Deciding on the relative weight of the influencing factor is one of the greatest difficulties in applying the SWOT approach. Wheelen and Hungr (2000), David (1986), and others suggest assigning a relative weight to the influencing factor in a subjective and arbitrary manner, on condition that the total sum of the relative weight of all the factors equals to 1 (100%). In this way, it is possible to offset the influence of bias in the final result. The CLOCK model keeps the Relative Weight as a constant value in the strategy formula.
- A quantitative, Objective Measuring Scale index: a measurable index representing the factor's quantitative value. The index is determined according to the characteristic represented by the factor. For example, the organization's financial situation is determined according to the level of cash flow or an index such as "Altman's Survival Index.". Productivity index (%) reflects the level of efficiency of operations, and market share (%) reflects the market positioning, and so on.
- Relative Intensity (RI) positioning index: each IF is positioned according to three levels of an Interval Scale: level 3 reflects High position, level 2 Medium position, and level 1 Low position. The objective quantitative measuring index scale is attached to the Interval Scale . For example, Table 1 shows that for Financial Situation IF, a measuring scale in which a surplus of 100K\$ exists is defined by the



management as a 'strength' in level 3. If the financial current situation is of (60) K\$ (over draft), it is defined and positioned as a 'weakness' in level 3 and so on.

- **Weighted Intensity (WI):** the weighted intensity represents the contribution of each factor to the total power intensity of each of the SWOT variables, calculated as the multiplication of the Relative Intensity (RI) and its Relative Weight (RW) determined according to the current positioning of the appropriate quantitative measuring index. In the example presented in Table 1, the current financial situation is a positive cash flow of about 100K\$, and its suitable positioning on the scale is in the 'strength' level of 3. Hence, the 'Weighted Intensity' will be  $105 = (3 \times 35)$ .
- **Weighted Power Intensity (WPI):** reflects the total intensity of all the factors positioned in each of the SWOT variables, and is calculated as the total sum of the Weighted Intensity of those factors. According to the example in Table 1, the Weighted Power Intensity of 'strengths' is 155 ( $105 + 55$ ), and similarly, that of the 'weaknesses' is 77 ( $45 + 14 + 18$ ).

**Principle no. 3** – developing a WPI matrix for the environment and the organization: two matrixes of identical structure exist, one for the business environment and the other for the firm. Using these matrixes it is possible to calculate quantitatively the power intensity of the four SWOT variables. Table 1 presents a hypothetical example for calculating the intensity of internal power ('strengths', 'weaknesses') and Table 2 presents a hypothetical example for calculating the intensity of environmental powers ('opportunities', 'threats'). Bernroider (2002) concludes that six internal success factors exist for the organization, reflecting the positioning of the 'strengths' and 'weaknesses', denoting them as 'physical resources,' 'abilities,' 'quality,' 'contact with customers' (responsiveness), and 'innovation'. The organization's management could use these factors and/or others in such a way that will express the business structure & its activities.

<i>A Matrix of the Firm's Power Intensity</i>								
			<i>Power intensity of 'strengths'</i>			<i>Power intensity of 'weaknesses'</i>		
<i>Influencing factor</i>	<i>Relative weight</i>	<i>Measuring Scale</i>	3	2	1	1	2	3
<i>Financial situation (economic value)</i>	35	<i>financial value index assets (K\$)</i>	100	60	20	(20)	(40)	(60)
		<i>Weighted intensity</i>	105					
<i>Control of the market</i>	25	<i>Market share index (%)</i>	12%	10%	8%	6%	4%	2%
		<i>Weighted intensity</i>		50				
<i>Management and human resources</i>	15	<i>HR index by (%) of Motivation &amp; Absenteeism</i>	1%	2%	3%	4%	6%	9%
		<i>Weighted intensity</i>						45
<i>R&amp;D technology</i>	10	<i>Technological age index (years)</i>	Up to 2	2-4	4-6	6-8	8-10	>10
		<i>Weighted intensity</i>				10		
<i>Operations and management processes</i>	8	<i>Production index (efficiency)</i>	90%	86%	82%	78%	76%	72%
		<i>Weighted intensity</i>				8		
<i>Infrastructure</i>	7	<i>Equipment index (age by no. of years)</i>	Up to 3	3-6	6-9	9-12	12-15	>15
		<i>Weighted intensity</i>					14	
<i>Total</i>	100	<i>Total</i>	105	50		18	14	45
		<i>Weighted Power Intensity (WPI)</i>	155			77		

Table 1: A Matrix for Calculating the Intensity of the Firms 'Strengths' and 'Weaknesses'

Note: - Establishment of the Relative Weight for each factor can be determined either by brainstorming sessions, Delphi approach or experts opinion. The Relative Weight is the only parameter in the CLOCK model which is determined subjectively, where the established Measuring Scale is objectively defined. In this way the number of the subjective parameters is minimized. Only the Relative Weight index remained as subjective estimate in the CLOCK model

According to the example shown in Table 1, the Weighted Power Intensity of the organization's 'strengths' is 155, resulted of the sum of the weighted intensity of the influencing factors: 'financial situation' and 'control of the market.' The influencing factors 'Human Resources' and 'technology and infrastructure' reflect a total Weakness Weighted Power Intensity level of 77 (18+14+45).

Very similar, hypothetical example of a matrix of power intensity for the business environment ('opportunities', 'threats') is presented in Table 2. Seven influencing factors were defined. In the example, the Power Intensity Index score of Strengths is 39 and the Weakness Power Intensity Index score is 78.

<i>A Matrix of the Business Environment Power Intensity</i>								
			<i>Power intensity of 'opportunities'</i>			<i>Power intensity of 'threats'</i>		
<i>Influencing factor</i>	<i>Relative weight</i>	<i>Measuring Scale</i>	3	2	1	1	2	3
<i>Economic situation</i>	30	<i>Prime interest rate (%)</i>	3<	3-3.5	3.5-4.0	4-5	5.-7	>7
		<i>Weighted power intensity</i>				30		
<i>Marketing potential</i>	25	<i>Market size index (mil. \$)</i>	>20	15-20	10-15	5-10	2-5	2<
		<i>Weighted power intensity</i>				25		
<i>Human resources recruitment</i>	15	<i>Unemployment level index</i>	>12	11-12	10-11	9-10	8-9	7-8
		<i>Weighted power intensity</i>			15			
<i>R&amp;D technology</i>	10	<i>Technological age index (years)</i>	Up to 2	2-4	4-6	6-8	8-10	>10
		<i>Weighted power intensity</i>			10			
<i>Regulation</i>	8	<i>Aggregation taxation index (%)</i>	15%	20%	25%	30%	35%	40%
		<i>Weighted power intensity</i>				8		
<i>National infrastructure</i>	7	<i>Investment budget (mil. \$)</i>	>40	20-40	10-20	5-10	2-5	2<
		<i>Weighted power intensity</i>		14				
<i>Political situation</i>	5	<i>Annual event frequency</i>	1	1-2	2-4	4-6	6-8	8-10
		<i>Weighted power intensity</i>						15
<i>Total</i>	100	<i>Total</i>		14	25	63		15
		<i>Weighted Power Intensity</i>	39			78		

Table 2: A Matrix for Calculating the Power Intensity of the Firms 'Opportunities' and 'Threats'

A summary of the Weighted Power Intensity (WPI) of the variables is presented in Table 3.

<i>Strength Intensity</i>	<i>Opportunity Intensity</i>	<i>Weakness Intensity</i>	<i>Threat Intensity</i>
S	O	W	T
155	39	77	78

Table 3: Summary of the Weighted Power Intensity of the variables in the CLOCK model

**Principle no. 4** – consolidating the 'Leading Strategy' (LS) direction: four generic strategic directions exist, resulting from the simultaneous integration of the Weighted Power Intensity

of the two external factors ('opportunities,' 'threats') with the two internal factors ('strengths,' 'weaknesses'), which can be defined as follows:

- Growth (S+O): a situation in which the WPI of 'opportunities' is larger than the WPI of 'threats' and that of 'strengths' is larger than that of 'weaknesses.' The Growth strategy involves in a synergic process to grow and expand. This strategy could be applied by 'market development,' 'product development,' 'vertical/horizontal integration,' 'diversification,' 'market penetration,' 'mergers and acquisitions' (such as Teva Ltd.), and so on.
- Leverage (W+O): a situation in which the WPI of 'opportunities' is larger than the WPI of 'threats' and that of 'weaknesses' is larger than that of 'strengths.' The line leading the Leverage strategy. This strategy could be applied in the directions of 'developing human resources,' 'investments in infrastructure and equipment,' 'developing business units,' 'developing and encouraging innovativeness and creativity,' and so on.
- Response (S+T): a situation in which the WPI of 'threats' is larger than the power intensity of 'opportunities' and that of 'strengths' is larger than that of 'weaknesses.' Therefore, the Response strategy employs 'strengths' to push the 'threats' away. This strategy could be applied and used by 'cooperation,' 'price war,' 'focusing and differentiating,' 'performance improvement,' enhanced HR motivation, and so on.
- Survival (W+T): a situation in which the WPI of 'threats' is larger than the power intensity of 'opportunities' and that of 'weaknesses' is larger than that of 'strengths'. The Survival strategy reflects the organization's struggle to maintain its continued existence as a 'living body.' In this kind of strategy, action and application modes could include 'liquidation,' 'dismissals,' 'closing production lines,' 'reducing product basket,' 'limiting number of brands,' 'vertical integration by the buyer,' and so on.

Thus the CLOCK strategy formula can be defined as:-

$$(1) \quad LD = f(WPI) = f(IE, RW, WI)$$

Figure 2 presents the positioning of the Weighted Power Intensity of each SWOT variable in the 'SWOT CLOCK Diamond Behavior Model. Results shown in Table 3 reflect the organization's Response strategy (S+T) quadrante as a Leading Strategy (LS). Placing the values of the Weighted Power Intensity of each variable creates four triangles. Each triangle represents a combination of an external environmental variable with an internal variable of the organization on the corresponding quadrante. Four possible strategies simultaneously at a

certain moment in time are created, Growth, Response, Survival and Leverage. Intuitively, the Leading Strategy is determined by the largest triangle in size out of all the possible strategy triangles. In this example, the triangle of the Response strategy quadrangle is the biggest of all the others in size. Therefore it is defined as the Leading Strategy.

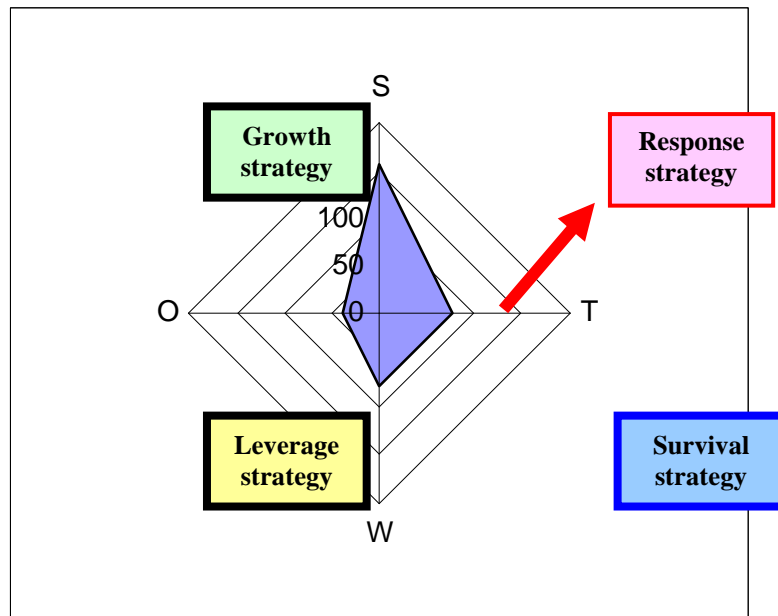


Figure 2: The 'SWOT CLOCK' Diamond Behavior Model

**Principle no. 5** – 'the Strategic Pointer': the 'strategic pointer' (henceforth, 'POINTER') points to the strategic direction that was determined by an analysis of the current position. The 'POINTER' is the weighted vector of the four SWOT forces, each having a direction and intensity. Figure 3 describes the process of strategic positioning for the weighted vector. In the first stage, the WPI of 'strengths' is vertically allocated upwards. Then, the allocation of the WPI of 'opportunity' continues horizontally to the left. From this point, the WPI of 'weaknesses' continues to be allocated downwards, and finally, the WPI of 'threats' is allocated to the right. In the example, the weighted vector begins from the origin point (0, 0) to the end point of the last vector S78:T49, and the 'POINTER' vector position is indicated accordingly (in red color) in the Response strategy quadrangle. The pointer's positioning is strategically significant. When the pointer's is aligned more vertically in the quadrangle of the Response strategy, the organization has a better chance of overcoming 'threats'. On the other hand, when the pointer's is aligned more horizontally, the situation will be more risky, because relatively, 'threats' direction will be larger than its 'strengths'.

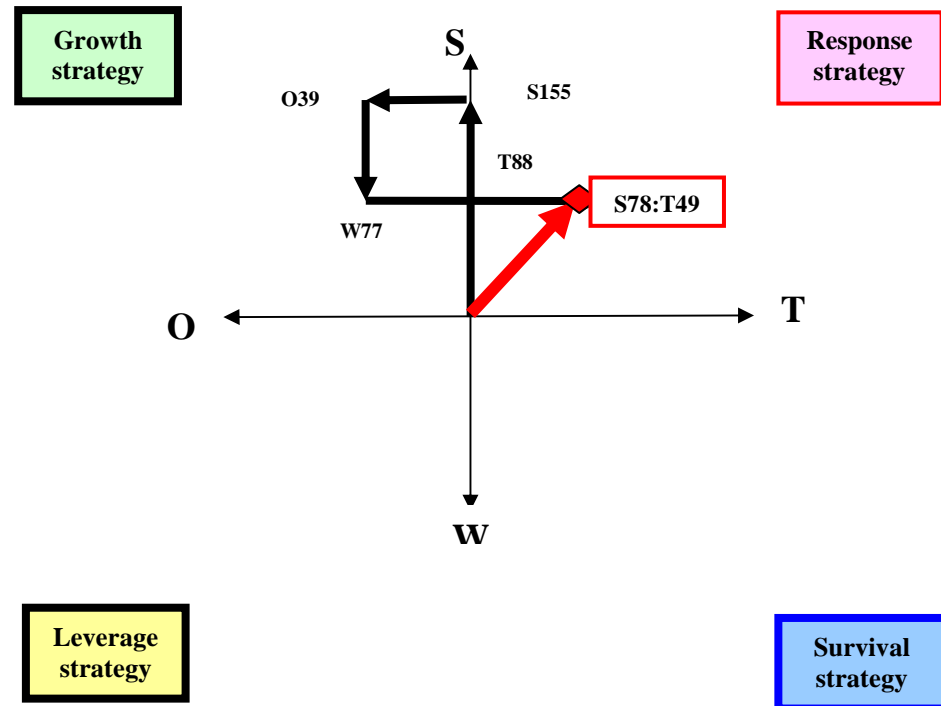


Figure 3: the POINTER strategic position

The pointer's positioning is momentary. It "turns" according to the corresponding strategic positioning on the time series axis, as described in Figure 4. For example, at some point in time (say, T1), the POINTER indicates the Response strategy quadrate, and the organization applies this strategy. In case that the organization will not succeed in operating its strategy, Strengths turn into Weakness and the Threats will remain the same, the strategy turns into the Survival quadrate (say, T2).

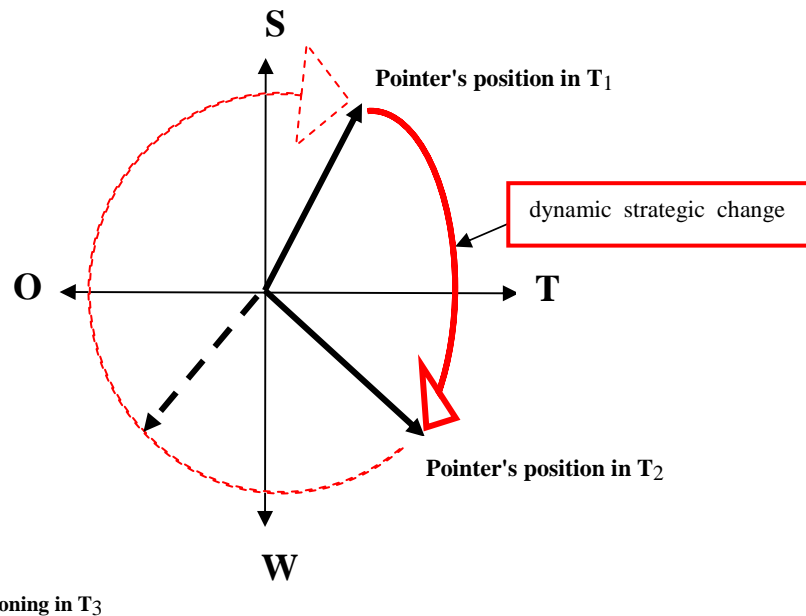


Figure 4:- the CLOCK POINTER move over time series system

The pointer position is a temporary one. It could remain in the same strategic quadrante for quite a long time, and change its direction position later on. This movement is very similar to the pointer's move in an analogical clock; hence the model name "The SWOT CLOCK."

The strategic direction immediately highlights the strategic question of How? That is, How to grow? How to respond? How to lever? and How to survive? For example, how should the organization respond once it has consolidated its strategy of Response? What should be the policy and how should it act regarding the steps it should take actually to use its strengths and push away the threats?

**Principle 6** – the dynamic process of the pointer and the time series variable: observations on business behaviors indicate an associative relation between the pointer's positioning and its movements on the time scale. According to this principle, the pointer's movement from one strategic quadrante to the next constitutes a cyclical process, as described by Figure 5.

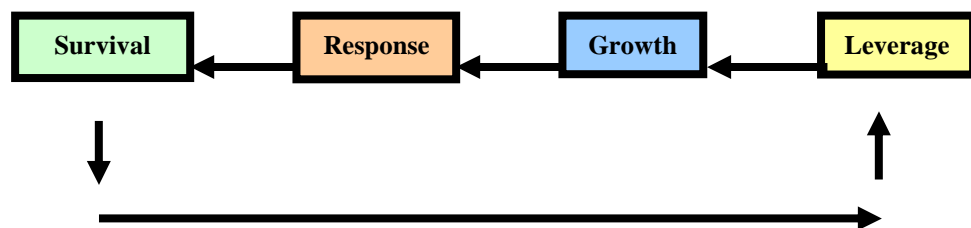


Figure 5: the "CLOCK POINTER" stepwise model

Finding support for the hypothesis that the direction of the pointer's movement is clockwise or counter clockwise, is due to some unexpected events (such as disruptive technology, regulation, etc.) is an open field for challenging studies, both academic and empiric.

Features of this process can be explained according to the following possible scenario:

- At a certain point in time the POINTER indicates the 'Leverage' Leading Strategy, applying opportunities to strengthen weaknesses.
- At the next point in time, the business combines opportunities and stretch new strengths, affecting the POINTER to move to the Growth Leading Strategy quadrate.
- Afterwards, the business is influenced mainly by competitors, customers and other stakeholders. Severe threats overriding the opportunities, moving the POINTER to the Response Leading Strategy quadrate. The business begins to use its strengths to push the threats away.
- Two possible strategic results could exist in later. If the business fails to push away the threats with the Response strategy, it becomes weaker and the POINTER will move to the Survival Leading Strategy quadrate. If the business succeeds in pushing away the threats, its strengths become weaker as a result. In this case, there are relatively more opportunities than threats and the POINTER will move to the Leverage Leading Strategy quadrate.

Allen Deutchman's (2005) article *The Managerial Rabbit of IBM* skillfully exemplifies how the principles of the CLOCK model could explain the behavior of strategic management. The article describes the process of strategic change undergone by IBM since the end of 1999. The CEO Lou Gerstner realized that up until that time IBM used mainly a defensive strategic policy, which corresponds with the Response strategy according to the Clock model. As a result, he identified IBM's weaknesses, on the one hand, and opportunities on the other, consolidating the EBO (Emerging Business Opportunities) theory, which is based on the exploitation of internal abilities, motivation and intra-organizational entrepreneurship against the market forces' threats (competitors, customers). This innovative perception led IBM to a Leverage strategy that was actually executed by the establishment of business entrepreneurship units in areas that were not included in IBM's business core up until that time, such as biotechnology, life science, etc. Since its launch, the EBO program succeeded in creating about 22 'living' projects that produced in 2005 an annual profit of about 15 billion dollars. Since 2005/2006, IBM's strategic managerial policy has been characterized as Growth: a situation in which a significant combination of 'opportunities' and 'strengths' exists.

Applying the principles of the CLOCK model allows also small and medium scale businesses, not only large businesses, to use a quantitative/objective tool in shaping their business strategy. The model reduces the influence of the subjective factor on the possible



bias of the result, on the one hand, while being more simplistic in the process of strategy on the other, consolidating and expanding the intelligibility of the change process of strategic positioning on the time series axis.

### **The Comparative Relation of 'SWOT CLOCK', 'PLC' and 'BCG' models**

The CLOCK model explains behaviors of other models in the area of business strategy and provides them with applied validity. One of the many applications is reciprocal positioning with the well-known models of PLC (Product Life Cycle) and BCG (Boston Consultants Group), presented in Figure 6.

The PLC model suggests that similar to the time periods in human life (childhood, adolescence, maturity, old age, and death) a comparable analogy exists with products, organizations and even countries. According to the PLC model, these periods are defined as 'Introduction,' 'Growth,' 'Maturity,' 'Decline,' and 'Death,' as shown in Figure 6. At the end of the Decline period there are two possibilities to continue the business activity – death and the end of the activity, or upgrading the activity. According to the CLOCK model, there are four successive 'leading strategies' in the order of 'Leverage,' 'Growth,' 'Response,' and 'Survival' so that, analogically, it is possible to ascribe them to periods in the PLC model. Characteristics of the BCG model, too, which define four strategic positions – 'boy,' 'star,' 'milking cow,' and 'dog' – correspond to the analogy mentioned with the PLC and the CLOCK models.

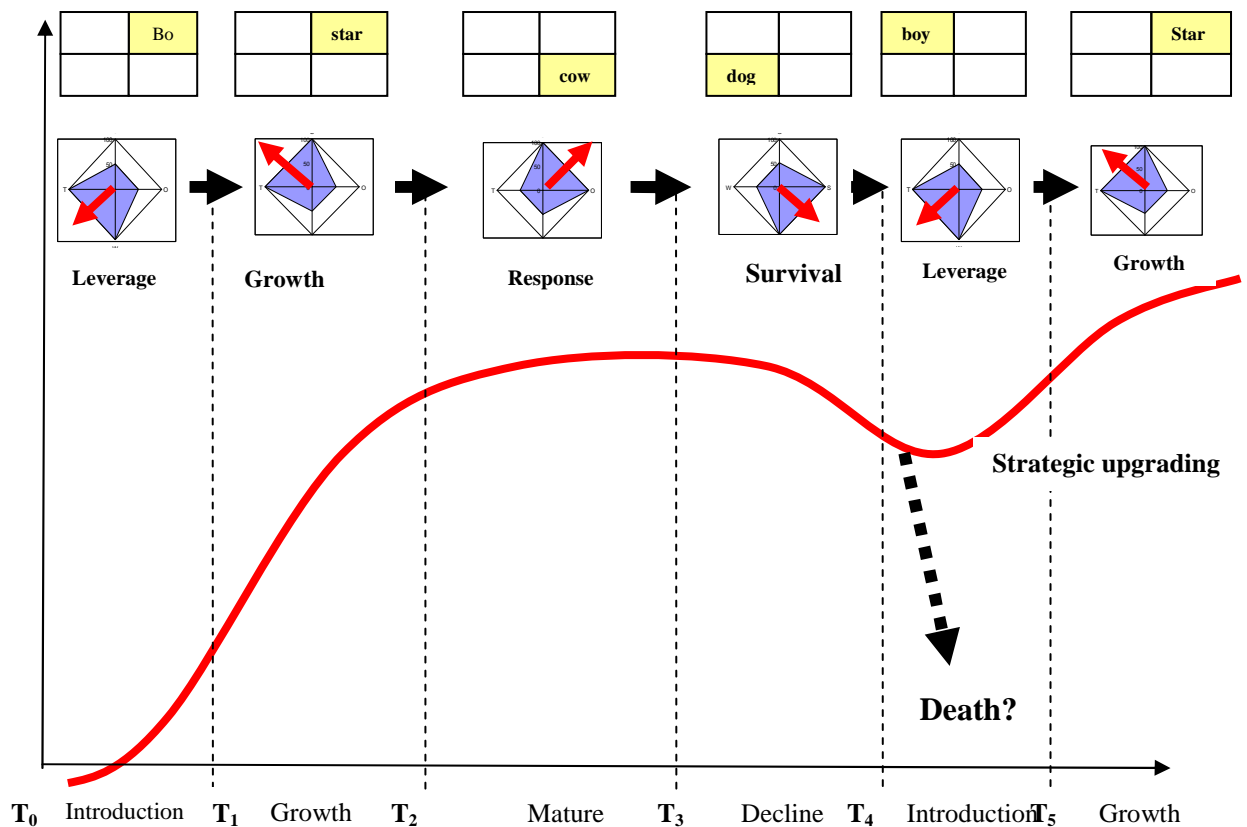


Figure 6: Reciprocal positioning of the CLOCK, BCG and PLC models.

As can be seen from Figure 6, the PLC, BCG and the CLOCK models overlap each other. This behavior could be described with reference to the time series independent variable as follows:

- Time scope  $T_0$ - $T_1$ : is characterized by the Introduction period according to the PLC model. This is also the period of the Leverage Leading Strategy according to the CLOCK model and the Boy positioning according to the BCG model.
- Time scope  $T_1$ - $T_2$ : is characterized by the Growth period according to the PLC model. This is also the period of the Growth Leading Strategy according to the CLOCK model and the Star positioning according to the BCG model.
- Time scope  $T_2$ - $T_3$ : is characterized by the Maturity period according to the PLC model. This is also the period of the Response Leading Strategy according to the CLOCK model, in which the organization uses its strengths to push away threats of the environment (competitors, etc.). The corresponding positioning according to the BCG model is that of Milking Cow.
- Time scope  $T_3$ - $T_4$ : is characterized by the Decline period according to the PLC model. This is also the period of the Survival Leading strategy according to the Clock model. If the Survival strategy does not succeed, business activity will stop

and the Death stage will begin. According to the BCG model, the positioning is of the Dog type.

- Time scope T4-T5: is characterized by the Introduction period according to the PLC model, following the product upgrade. According to the CLOCK model, this is the Leverage Leading

Strategy of the upgraded product, to be followed by the Growth Leading Strategy in another cycle after time point T5. Once again, the positioning according to the BCG will be of kind 'boy,' accordingly.

The CLOCK model focuses on factors that have significant influence and is employed effectively in situations, particularly when time is too limited to analyze a complex strategic situation. The model acts as a filter that focuses extensive information into applicable dimensions and is able to simplify and apply strategic factors in practice.

Table 4 shows the comparative relation between the strategy components of the three models.

<i>BCG model</i>	<i>SWOT Clock model</i>	<i>PLC model</i>
<i>Boy</i>	<i>Leverage</i>	<i>Introduction</i>
<i>Star</i>	<i>Growth</i>	<i>Growth</i>
<i>Milking Cow</i>	<i>Response</i>	<i>Maturity</i>
<i>Dog</i>	<i>Survival</i>	<i>Decline</i>

Table 4: A Comparative Relation of the SWOT CLOCK, PLC and BCG models

Such analogical comparison manner adds further validation to the existence of these models and enhances the confidence that a business strategy can be based on the principles of these models represents true business behavior.

## Summary

The main goal of a quantitative, behavioral, strategic or any other kind of model is to present a rationalistic and structured system that has a defined goal and could be applied in practice. In the field of business strategy, the main expectation from using the traditional SWOT model was to point to a strategic direction that is based on the behavior of its variables, i.e., opportunities, threats, strengths, and weaknesses. The major drawback of the traditional SWOT model results from the fact that it is based on intuitive and qualitative evaluations. In this sense, it does not fulfill the expectations of its users, making it difficult to define the desired strategic direction for the organization in a sound manner. In addition, it does not consider the time dimension as an independent variable in determining the business strategy.

The CLOCK model presents a new view point for understanding the organization's strategic behavior at the micro level. The model offers an answer to the basic drawbacks of the SWOT approach and of other models presented in this article, and supplements them to create better understanding and objective, simple, and effective applicability of the SWOT approach. The model also provides appropriate answers to the special requirements and expectations of small and medium scale organizations in consolidating their strategy as well as dealing effectively with large organizations.

The typology according to the perception of the CLOCK model in comparison with the traditional SWOT model has several important advantages:

- A more objective and quantitative approach for deciding on the strategic direction.
- Offering well-defined strategic directions according to the principle of the traditional SWOT model.
- Applying the concept of time as an independent variable in deciding the business strategic direction.
- Introducing the cyclical order regime of strategic direction.
- Giving an applied validity to accepted models in business strategy such as PLC and BCG.
- Effective, simple and fast application of the traditional SWOT model, mainly in small and medium scale organizations.

The CLOCK model opens wide scope of studies to be applied both academically and practically. It is recommended to apply academic researches to study the correlation between LD and the WPI variables and the validity of the CLOCK strategy sequence on the time series. Also to operate applied researches which can investigate the end result of performed SME's strategy in practice. Business management can adopt the CLOCK concept to enhance their business strategy formulation process.

The refreshing ideological perception of the CLOCK model creates greater opportunities for conducting academic and empirical studies that could enrich our knowledge and understanding in the area of strategic management in the tough competitive environment of the 21st century.

## **Biography**

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## STATISTICAL ANALYSIS ON SICILY AIRPORT SYSTEM: "THE VIRTUAL CENTRE OF MEDITERRANEAN AREA"

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### Abstract

Talk about an island in the central Mediterranean sea and to determine its potential, it is a consideration discussed by many researchers. Most of them have analyzed the issue from a conceptual, theoretical and economic profile.

Shifting the focus on the validity of economic considerations by analysis and empirical studies capable of demonstrating the validity of these theories, seems to be a very delicate step.

The paper shows the following hypothesis: beyond the central geographical position, the Sicilian airport system is at the edge of the Mediterranean and this influences the economic well-being of its population.

**Keywords:** Indexes Airport –flights price - flight time - waiting time - rate of lost income - economic welfare

### Introduction

Official statistics show that in Italy the airline and its services are in a state of backwardness compared to the European context. The comparison of passengers and goods in transit to GDP and population between Italy and EU-27 are low: 35% average for passenger and 45% average for the goods.

In this context, the position of the southern regions of Italy than the rest of the country, is even more disadvantaged, especially as regards the quality of services and the limited capacity of national and international links.

No need to talk about contribution to GDP to provide a measure of the disadvantage of those territories. Should mention the potential links, cost and time of connection and impact of those costs on the resident population.

Speaking of geographical centrality and associated infrastructure of the international connection, is the keystone of this contribution. It will be a moment of reflection on empirical reality. It aims to demonstrate how the international and geographical centrality not always coexist, indeed there are cases where the opposite happens. This is the case in Sicily, an island

in the middle of the Mediterranean with two international airports on a population of 5 million inhabitants.

Talk about an island in the middle of the Mediterranean and to determine its potential, it is a consideration addressed by many scholars. Most of them have analyzed the issue from a purely conceptual, theoretical and economic.

Shifting the focus on the validity of economic considerations by analysis and empirical studies capable of demonstrating the validity of these theories seems to be a very delicate step.

Empirical studies highlight the enormous cultural, archaeological, landscape potential of this Island, without sinking the attention on factors that have a meaningful role in the development of this island. It therefore refers to the main communication channels: roads, railways and airlines. Therefore in relation to these factors, the question arises, as Sicily is at the heart of the Mediterranean? What to extent? And, what affects this central, if proven, population economic welfare? It is true centrality or marginality or virtual centrality?

Based on these questions, the idea of this contribution, which aims to demonstrate the absolute virtual centrality this island in order to confirm the following theory: beyond the geographical focus is on the edge of Sicily and the Mediterranean influence the economic welfare of its population. This theory will be demonstrated by considering the non-centrality of Sicily to one of the many aspects: the airport system.

The paper presents an estimate incidence the fares per-capita charged by airlines and on non-airport system centrality. This objective will be achieved through a careful analysis on domestic and international tariffs, waiting times, flight duration and impact on income per head of population. The nonparametric analysis and estimate their statistical significance, will serve to validate this theory.

## **The Data, Indicators and Methodology**

In order to achieve the objectives set by the project, were made the following methodological steps:

- choice of international destinations - in this phase was carried out a selection of the city's major tourist International for Europe, Madrid, Paris, London, Amsterdam, Athens and Istanbul for America Rio de Janeiro, Buenos Aires Lima, New York, Mexico City, Montreal; Bangkok for Asia, for Africa and Seychelles Sharm El Sheikh.
- Gathering of travel time and waiting times - for each target were calculated durations of travel and waiting times for flights from Catania and Palermo to all international destinations specified above (source Istat, Catania airport Palermo and Assaeroporti).

- Detection of the average cost of travel for groups of cost - for each destination of departure (Catania and Palermo) and target (selected in a) were found the rates for groups of low cost (economic) - medium - high.
- Classification of the Italian population according to average income per capita - The costs and travel times were analyzed in relation to average income of three social classes of the Italian population: the unemployed, workers, industrialists. This distinction is necessary to estimate the average expenditure of Italian travelers.
- Estimate of indicators - in relation to official statistics the total number of tourist arrivals in Sicily (T), number of trips made from Sicily (V), the Sicilian population resident (N) of international traffic from Palermo and Catania Rome , were estimated the following indices: the index of propensity to travel, travel frequency index and the index of the international airport traffic.
- Estimating the cost impact of aircraft on the average annual income per capita - E 'was calculated the incidence of the cost of aviation average annual income per capita.

The indicators used are as follows:

Propensity towards travel (PV) - can be classified in net or gross. That net is the percentage of tourists in relation to the resident population (net propensity =  $PV_N$ ) is the percentage of the gross travel for the resident population (gross propensity  $PV_L$ ). Be calculated as follows:

$$PV_N = T/N \quad [1]$$

$$PV_L = V/N \quad [2]$$

AIRPORT TRAFFIC INDEX (T) - expresses a measure on the international mobility for reference airport. It is given by:

$$T = N^{\circ} \text{ international travel} / \text{travel total} \quad [3]$$

COST OF WAITING TIME (CAo) – defines the relationship between waiting times for the attainment of goals both outward (TAA) that the return (TAR) than middle-income zone (RMo). This is a general indicator of the cost of waiting time interpreted in economic terms. It is given by:

$$CAo = (TAA + TTR) / (RMo) \quad [4]$$

The specific indicator of CAo refers to income groups (unemployed, employed and contractor) and the cost of flying groups (low, medium, high)



$$CAO_{ij} = (TAA_{ij} + TTR_{ij}) / (RM_{0i}) \quad [5]$$

where i = income class while j = class airfare cost.

RATE OF LOSS OF INCOME DAILY MEDIA ( $TP_{ij}$ ) – indicate what impact the waiting time during flights on average daily income ( $RM_{gi}$ ) the traveler. Is calculated as follows:

$$TP_{ij} = CAO_{ij} / RM_{gi} \quad [6]$$

All variables have been compared. Their results were validated with nonparametric tests.

The Wilcoxon signed-rank test considers information about both the sign of the differences and the magnitude of the differences between pairs. Because the Wilcoxon signed-rank test incorporates more information about the data, it is more powerful than the sign test.

## The Results

The official statistics for 2009 show that tourist flows in Sicily amounted to 14,592,498. This result positions the Sicily with the 31% national market share. The Sicilian population (5,029,683) have traveled 3480 (0.07%) while the national figure (Italy) amounts to 0.14%.

When normalized data on the movements of passengers and goods in GDP and population of a deterioration of results for the southern regions of Italy including islands. This delay provided for areas of Southern Italy is growing if you look at the picture of the routes south - north and south - north. Airports of the South recorded only 3 connections (Palermo - Naples, Catania - Naples and drills - Bari). The number of weekly flights south - south amounted to 84 198 against the north - north. Other negative figure is the small number of links with the Mediterranean countries. Only Palermo - Tunis with 6 weekly flights ensures flights.

These few directions, describe a first dimension on the centrality of Sicily in relation to the Mediterranean. This does not mean that Sicily has no links with the world, but stressed the utter lack of international routes with stopovers that would exclude handling and technical requirements.

This aspect is crucial for our analysis, as it stimulates research on empirical evidence demonstrating the differences, geographical distances and the effect on local users.

Therefore, the analysis and processing of data obtained from the airports of Catania and Palermo (in Sicily) compared to Rome (Fiumicino) has been achieved the expected results.

The propensity to travel by Sicilian is very low, stood in the order of 0.07% [2] as opposed to the propensity to receive travelers 26% [1].

If you analyze the costs for the purchase of airline tickets by price for each airport in relation to international destinations, you start to have the first elements of analysis. Were recorded costs for airline tickets round trip with departure date June 1, 2009 (Monday) and return on June 8, 2009 (Monday). It appears clear that those who start from Sicily facing higher costs compared to those from an airport as Fiumicino. On average in international travel who moves from Sicily spends an average of 200.00 euro for international connections. If the data are analyzed for groups fare (low, medium and high) the mean differences in change negative for the range of low cost, the average difference between the Sicilian airports international airport in Rome amounted to 124,00 € for mid-range to 182 and 307 € for the high end. If the data are analyzed for departure airport, you notice that the airport of Palermo who spends on average more than those leaving from Catania (see Table 1). The differences on the costs to the airport of departure and destination for international arrival and groups were significant cost to the Wilcoxon test. This confirms that the vast majority of costs on international flights from Sicily is significantly greater than the departures from an airport that has real international connotations

	CLASS OF LOW COST				
DESTINATIONS	<i>from Catania</i>	<i>From Palermo</i>	<i>From Roma</i>	$\Delta = CT - RM$	$\Delta = PA - RM$
<i>Madrid</i>	311,64	300,16	180,20	131,44€	119,96€
<i>Parigi</i>	180,30	110,30	180,40	-0,10€	-70,10€
<i>Londra</i>	180,25	204,25	155,21	25,04€	49,04€
<i>Amsterdam</i>	350,00	340,30	240,10	109,90€	100,20€
<i>Atene</i>	295,16	271,39	202,14	93,02€	69,25€
<i>Rio de Janeiro</i>	910,17	909,84	718,00	192,17€	191,84€
<i>Buenos Aires</i>	671,69	671,36	784,58	-112,89€	-113,22€
<i>Lima</i>	1.030,98	1.003,65	870,97	160,01€	132,68€
<i>New York</i>	553,38	575,35	387,93	165,45€	187,42€
<i>Città del Messico</i>	839,61	888,86	496,30	343,31€	392,56€
<i>Montréal</i>	625,68	661,74	510,76	114,92€	150,98€
<i>Istanbul</i>	216,20	419,38	195,70	20,50€	223,68€
<i>Banghok</i>	699,50	785,25	510,15	189,35€	275,10€
<i>Sharm El Sheikh</i>	509,80	509,47	334,36	175,44€	175,11€
<i>Seychelles</i>	947,27	948,94	826,35	120,92€	122,59€
$\Delta$ average =				115,23€	133,81€
$\Delta$ average for Sicily =				124,52 €	
(Wilcoxon Test with $p$ -value== 0,0073 CT - RM and 0,0073 PA - RM)					
	CLASS OF MEDIUM COST			$\Delta = CT - RM$	$\Delta = PA - RM$
<i>Madrid</i>	400,64	410,00	280,30	120,34€	129,70€
<i>Parigi</i>	275,61	236,80	220,10	55,51€	16,70€
<i>Londra</i>	314,52	340,10	233,18	81,34€	106,92€
<i>Amsterdam</i>	655,13	527,45	300,63	354,50€	226,82€

Atene	620,24	509,41	420,14	200,10€	89,27€
Rio de Janeiro	1.098,17	1.296,15	723,63	374,54€	572,52€
Buenos Aires	961,84	768,36	807,95	153,89€	-39,59€
Lima	1.200,63	1.229,11	980,97	219,66€	248,14€
New York	575,71	628,05	426,66	149,05€	201,39€
Città del Messico	922,45	949,16	604,21	318,24€	344,95€
Montréal	662,07	762,14	510,76	151,31€	251,38€
Istanbul	216,20	419,38	227,26	-11,06€	192,12€
Bangkok	699,50	785,25	556,05	143,45€	229,20€
Sharm El Sheikh	515,86	556,59	334,36	181,50€	222,23€
Seychelles	947,27	948,94	855,88	91,39€	93,06€
$\Delta$ average =				172,25€	192,32€
$\Delta$ average for Sicily =				182,29 €	
(Wilcoxon Test with p-value= 0,00097 CT - RM and 0,00097 PA - RM)					
	CLASS OF HIGH COST			$\Delta$ = CT - RM	$\Delta$ = PA - RM
Madrid	650,64	750,00	350,30	300,34€	399,70€
Parigi	345,04	349,78	280,30	64,74€	69,48€
Londra	482,42	520,00	320,00	162,42€	200,00€
Amsterdam	935,15	890,30	350,80	584,35€	539,50€
Atene	800,72	808,95	788,24	12,48€	20,71€
Rio de Janeiro	1.346,48	1.791,31	1.122,13	224,35€	669,18€
Buenos Aires	1.533,61	1.533,28	957,78	575,83€	575,50€
Lima	1.733,93	2.393,91	1.230,45	503,48€	1.163,46€
New York	650,38	689,97	499,00	151,38€	190,97€
Città del Messico	999,61	1.170,09	772,09	227,52€	398,00€
Montréal	700,73	800,00	510,76	189,97€	289,24€
Istanbul	419,71	419,38	227,26	192,45€	192,12€
Bangkok	785,58	785,25	617,50	168,08€	167,75€
Sharm El Sheikh	755,86	705,72	334,36	421,50€	371,36€
Seychelles	947,27	948,94	855,88	91,39€	93,06€
$\Delta$ average =				258,02€	356,00€
$\Delta$ average for Sicily =				307,01€	
(Wilcoxon Test with p-value=0,00006 CT-RM and 0,0000 PA-RM)					

Source: Our elaborations on data [www.e-dreams.it](http://www.e-dreams.it)

**Table 1** - Cost for ticket groups cost, destination and arrival and departure of differences  $\Delta$  - Data in Euro - Year 2009

If the analysis of air fares is passed to the flight time, despite the natural geographical distance from the airport of departure (CT = Catania, Palermo PA = RM = Rome) to arrive, you notice huge differences.

If we consider that Sicily analyzed to arrive at a destination one is forced to a stop on Rome (average travel time 50 minutes), I notice that both outward and return the average delta for Sicily ranges from 4 hours of 'Round 2 of the return (in the range of low cost), between 4 and

2.53 of going back (in the range of average cost) and between 2.15 and 3.10 hours of going hours of receipt (in the range of high-cost) (see Table 2).

When analyzing median delta between airports in Sicily (Catania and Palermo) than those of Rome, the trend does not change (see Table 2). All Delta for departure airport and destination for both the outward and return journeys were significant to the Wilcoxon test ( $p$ -value  $< 0.05$ ) (see Table 2). It should be emphasized that the presence of negative delta. This is the case of direct charter flights between the airport of departure and destination. If we eliminate the negative delta, median and average the results would change, highlighting inequalities even more pronounced.

Even for this second component analysis, we can not represent that the Sicilian airports centrality that it deserves a territory at the heart of international communication routes.

	<i>Flight time range of low cost price</i>			
	<i>outbound</i>	<i>return</i>	<i>outbound</i>	<i>return</i>
<i>Destinations</i>	$\Delta = CT - RM$	$\Delta = CT - RM$	$\Delta = PA - RM$	$\Delta = PA - RM$
<i>Madrid</i>	4,05	1,20	4,05	3,05
<i>Parigi</i>	4,90	2,50	4,05	1,60
<i>Londra</i>	1,95	3,05	0,90	1,05
<i>Amsterdam</i>	3,95	2,80	4,80	5,65
<i>Atene</i>	4,55	3,30	4,60	2,85
<i>Rio de Janeiro</i>	6,30	-3,25	7,55	0,15
<i>Buenos Aires</i>	-1,25	-0,25	-2,30	-4,95
<i>Lima</i>	2,95	-3,00	6,00	0,90
<i>New York</i>	0,20	5,15	-0,20	1,80
<i>Città del Messico</i>	4,15	1,20	9,45	-0,70
<i>Montréal</i>	4,43	4,05	4,28	2,17
<i>Istanbul</i>	2,70	1,60	5,65	-0,90
<i>Bangkok</i>	-2,20	-2,05	-7,95	-7,75
<i>Sharm El Sheikh</i>	3,85	3,45	7,30	11,00
<i>Seychelles</i>	-3,35	2,90	-3,55	2,80
	$\Delta = CT - RM$	$\Delta = CT - RM$	$\Delta = PA - RM$	$\Delta = PA - RM$
$\Delta$ median =	3,85	2,50	4,28	1,60
Wilcoxon Test with $p$ -value=	0,008	0,053	0,031	0,105
$\Delta$ average for Sicily =	4,07	2,05		
	<i>Flight time range of medium cost price</i>			
	$\Delta = CT - RM$	$\Delta = CT - RM$	$\Delta = PA - RM$	$\Delta = PA - RM$
<i>Madrid</i>	0,05	3,40	0,60	3,40
<i>Parigi</i>	3,05	2,90	2,35	1,90
<i>Londra</i>	1,25	2,85	0,25	3,80
<i>Amsterdam</i>	1,80	4,25	1,90	3,05
<i>Atene</i>	4,20	3,05	4,20	3,80

Rio de Janeiro	6,30	-4,15	6,25	-
Buenos Aires	-0,80	-0,20	5,00	-3,15
Lima	6,30	1,70	6,10	2,20
New York	-1,25	5,20	-1,95	1,85
Città del Messico	5,00	-1,60	5,30	0,15
Montréal	4,43	2,32	4,28	2,85
Istanbul	5,85	4,65	8,80	2,15
Bangkok	3,85	1,75	-1,90	-3,95
Sharm El Sheikh	3,85	0,75	5,00	6,85
Seychelles	9,90	2,90	9,70	2,80
	$\Delta=CT-RM$	$\Delta=CT-RM$	$\Delta=PA-RM$	$\Delta=PA-RM$
$\Delta$ median =	3,85	2,85	4,28	2,20
Wilcoxon Test with p-value=	0,002	0,012	0,003	0,055
$\Delta$ average for Sicily =	4,07	2,53		
<i>Flight time range of high cost price</i>				
	$\Delta=CT-RM$	$\Delta=CT-RM$	$\Delta=PA-RM$	$\Delta=PA-RM$
Madrid	2,70	2,00	2,70	2,15
Parigi	0,45	0,35	0,30	0,20
Londra	5,70	4,85	0,65	0,75
Amsterdam	2,00	3,00	2,20	2,80
Atene	3,50	2,15	2,95	2,95
Rio de Janeiro	10,10	-0,85	9,70	-3,70
Buenos Aires	-0,90	0,70	-0,85	-1,00
Lima	5,25	4,00	7,70	2,60
New York	0,65	0,20	-0,10	0,80
Città del Messico	1,85	2,80	1,90	1,85
Montréal	4,43	3,32	3,90	2,17
Istanbul	9,85	2,15	8,80	2,15
Bangkok	-2,70	-1,20	-1,85	-2,05
Sharm El Sheikh	3,85	-0,25	3,15	4,50
Seychelles	9,90	2,90	9,70	2,80
	$\Delta=CT-RM$	$\Delta=CT-RM$	$\Delta=PA-RM$	$\Delta=PA-RM$
$\Delta$ median =	3,50	2,15	2,70	2,15
Wilcoxon Test with p-value=	0,004	0,008	0,005	0,041
$\Delta$ average for Sicily =	3,10	2,15		

Source: Our elaborations on data [www.e-dreams.it](http://www.e-dreams.it)

Table 2 -  $\Delta$  difference in duration of flights between Sicily and Rome airports, with ranges cost for international destination –hours data- Year 2009

The average waiting time at airports technicians are high. For example, from Catania to Madrid who must tolerate the waiting time of 4.05 hours, contrary to what happens if we start from Rome. The average waiting time for departure from Sicily have been between 2.07 hours and 64 minutes of going back (for the range of low cost), from 2.99 hours to 1.01 hours of going back (to the average price range) and from 2.75 hours to 97 minutes of going back

(end of high cost) (see Table 3). Again all the deltas between Sicily and Rome airports are significant results to the Wilcoxon test.

If we imagine that the waiting time for the lack of direct links is a waste of time as well as also economic consequences, reinforcing the distance that exists between a true international airport and one only on paper. Another element that must be emphasized is the relationship between duration of flights, delays for stopovers required and the cost of flights. Distances are higher the greater the cost of the flight, and the increase is dependent on the real international airport.

	<i>Waiting times for low cost price and one way</i>					
	<i>from Catania</i>		<i>From Palermo</i>		<i>From Roma</i>	
<i>DESTINATIONS</i>	<i>outbound</i>	<i>return</i>	<i>outbound</i>	<i>return</i>	<i>outbound</i>	<i>return</i>
<i>Madrid</i>	4,05	2,05	4,1	3,35	0,4	1,25
<i>Parigi</i>	6,3	4,3	3,1	1,4	0,4	1,15
<i>Londra</i>	4,2	3,35	3,1	1,35	3	0,55
<i>Amsterdam</i>	4,3	3,1	5,2	6,1	1,15	1,25
<i>Atene</i>	4,1	4,25	4,05	3,4	1,05	1,3
<i>Rio de Janeiro</i>	12	2,3	13,3	9,1	6,5	9,59
<i>Buenos Aires</i>	13,2	8,05	12,2	3,4	14,1	6
<i>Lima</i>	11,55	2,4	15,05	5,45	10,15	7,05
<i>New York</i>	5,2	8,1	4,3	4,4	4,55	3,15
<i>Città del Messico</i>	5,45	6,35	13,4	5,4	4,15	7,15
<i>Montréal</i>	3,35	6,1	3,25	2,5	1,3	3,2
<i>Istanbul</i>	2,1	2,2	7,3	1,05	1,2	1,25
<i>Banghok</i>	7	7	2,5	1,05	10,35	8,55
<i>Sharm El Sheikh</i>	4,45	3,2	8,35	11,2	2,15	1,3
<i>Seychelles</i>	8,35	1,35	8,2	1,3	10	
	<i>outbound</i>	<i>return</i>	<i>outbound</i>	<i>return</i>		
	$\Delta=CT-RM$	$\Delta=CT-RM$	$\Delta=PA-RM$	$\Delta=PA-RM$		
$\Delta$ average =	1,68	0,76	2,46	0,51		
WilcoxonTestwithp-value=	0,0287	0,1873	0,0356	0,7298		
$\Delta$ average for Sicily=	2,07	0,64				
	<i>Waiting times for medium cost price and one way</i>					
	<i>from Catania</i>		<i>From Palermo</i>		<i>From Roma</i>	
	<i>outbound</i>	<i>return</i>	<i>outbound</i>	<i>outbound</i>	<i>return</i>	<i>outbound</i>
<i>Madrid</i>	2	2,1	2,15	2,2	2,25	0
<i>Parigi</i>	2,45	4,05	2,15	3,05	0	1,1
<i>Londra</i>	2,05	1,4	1,05	2,05	1,4	0
<i>Amsterdam</i>	2,15	3,05	2,3	1,5	1,05	0
<i>Atene</i>	2,3	2,5	2,45	3,15	0	1,3
<i>Rio de Janeiro</i>	12	6,5	11,5	11,2	6,15	12,05
<i>Buenos Aires</i>	7,25	5,1	13,1	4,35	5,5	6,5
<i>Lima</i>	10,15	5,1	9,55	6,05	1,3	4,55

<i>New York</i>	2,4	8,1	1,1	4,4	4,25	1,28
<i>Città del Messico</i>	6	4,45	6,15	5,35	1,2	7,15
<i>Montréal</i>	3,35	3,25	3,25	5,05	1,3	3,2
<i>Istanbul</i>	2,1	2,2	7,3	1,05	0	0
<i>Bangkok</i>	7	7	2,5	1,05	4,3	5
<i>Sharm El Sheikh</i>	4,45	2,3	4,55	7,05	2,15	1,3
<i>Seychelles</i>	8,35	1,35	8,2	1,3	0	0
	$\Delta=CT-RM$	$\Delta=CT-RM$	$\Delta=PA-RM$	$\Delta=PA-RM$		
$\Delta$ average =	2,88	1,00	3,10	1,02		
WilcoxonTestwithp-value=	0,002	0,105	0,012	0,112		
$\Delta$ average for Sicily=	2,99	1,01				
<b>Waiting times for high cost price and one way</b>						
	<i>from Catania</i>		<i>From Palermo</i>		<i>From Roma</i>	
	<i>outbound</i>	<i>return</i>	<i>outbound</i>	<i>outbound</i>	<i>return</i>	<i>outbound</i>
<i>Madrid</i>	1,2	0,45	1,5	0,3	0	0
<i>Parigi</i>	0	0	0	0	0	0
<i>Londra</i>	4,2	3,35	1	0,3	0	0
<i>Amsterdam</i>	0,45	1,45	0,45	1,05	0	0
<i>Atene</i>	1,5	0,55	1,4	0,45	0	0
<i>Rio de Janeiro</i>	9,55	6,5	9,35	4,1	1,15	4,1
<i>Buenos Aires</i>	1,1	4,35	1,2	3,1	1,15	4,1
<i>Lima</i>	5,5	4,5	8,25	3,15	1,15	1,2
<i>New York</i>	1,35	1,25	1,1	1,4	1,05	0,4
<i>Città del Messico</i>	2,25	3,55	2,4	3,3	1,4	2,15
<i>Montréal</i>	3,35	3,15	4	2,5	1,3	3,2
<i>Istanbul</i>	8,3	1	7,3	1,05	0	0
<i>Bangkok</i>	2	1,45	2,5	1,05	2,5	1,25
<i>Sharm El Sheikh</i>	4,35	1,3	4,05	4,15	2,15	1,3
<i>Seychelles</i>	8,35	1,35	8,2	1,3	0	0
	$\Delta=CT-RM$	$\Delta=CT-RM$	$\Delta=PA-RM$	$\Delta=PA-RM$		
$\Delta$ average =	2,77	1,10	2,72	0,63		
WilcoxonTestwithp-value=	0,0029	0,0019	0,0015	0,0210		
$\Delta$ average for Sicily=	2,75	0,87				

Source: Our elaborations on data [www.e-dreams.it](http://www.e-dreams.it)

Table 3- Average time taken waiting for flights with technical stopovers, class of cost, destination and arrival and departure of differences  $\Delta$  - hours data - Year 2009

If you calculate weight in waiting times for international flights compared to loss of earnings or loss of income [6] of a Sicilian compared to what travelers from Rome, the results show very high diversity.

In fact, the differences between the rate of average income lost between Rome and Catania, Rome and Palermo, the Wilcoxon test were significant ( $p < 0.05$ ). This factor is not synonymous with international airports in Sicily.

Just analyze the results of table 4, to realize that if you reach Madrid Sicily by the impact of downtime (waiting time) on the average wage for outbound flights are about 76%, unlike what happens if we start from Rome with an incidence of 20.6% (for the low price). Should increase the cost of the ticket for failure to reduce the impact on income (6.8% from Catania and Palermo and Rome 0.0%) (see Table 4).

Destinations	Airport of departure for price range								
	Low price			Medium price			High price		
	CT	PA	RM	CT	PA	RM	CT	PA	RM
Madrid	76,3%	76,3%	20,6%	51,3%	51,3%	28,1%	6,8%	6,8%	0,0%
Parigi	132,5%	132,5%	19,4%	81,3%	81,3%	13,8%	0,0%	0,0%	0,0%
Londra	94,4%	94,4%	44,4%	43,1%	43,1%	17,5%	175,9%	175,9%	0,0%
Amsterdam	92,5%	92,5%	30,0%	65,0%	65,0%	13,1%	8,2%	8,2%	0,0%
Atene	104,4%	104,4%	29,4%	60,0%	60,0%	16,3%	10,3%	10,3%	0,0%
Rio de Janeiro	178,8%	178,8%	201,1%	231,3%	231,3%	227,5%	775,9%	775,9%	65,6%
Buenos Aires	265,6%	265,6%	251,3%	154,4%	154,4%	150,0%	59,8%	59,8%	65,6%
Lima	174,4%	174,4%	215,0%	190,6%	190,6%	73,1%	309,4%	309,4%	29,4%
New York	166,3%	166,3%	96,3%	131,3%	131,3%	69,1%	21,1%	21,1%	18,1%
Città del Messico	147,5%	147,5%	141,3%	130,6%	130,6%	104,4%	99,8%	99,8%	44,4%
Montréal	118,1%	118,1%	56,3%	82,5%	82,5%	56,3%	131,9%	131,9%	56,3%
Istanbul	53,8%	53,8%	30,6%	53,8%	53,8%	0,0%	103,8%	103,8%	0,0%
Bangkok	175,0%	175,0%	236,3%	175,0%	175,0%	116,3%	36,3%	36,3%	46,9%
Sharm El Sheikh	95,6%	95,6%	43,1%	84,4%	84,4%	43,1%	70,7%	70,7%	43,1%
Seychelles	121,3%	121,3%	125,0%	121,3%	121,3%	0,0%	140,9%	140,9%	0,0%
	RM-CT	RM-PA		RM-CT	RM-PA		RM-CT	RM-PA	
Wilcoxon Test with p-value	0,027	0,027		0,001	0,001		0,009	0,009	

Source: Our elaborations

Table 4 - Average rate of loss of income for flights daily flights with stopovers technical class of cost, destination and arrival-departure - Data in Euro-Year 2009

## Conclusions

Centrality and internationalism are two interdependent elements when it comes to major infrastructure links. Defining an international airport when its operation is not the means to do just slogans. But this is not always positive, since the analysis and research can establish with the photo numbers on the state of things.

And what happens if you analyze data and results related to Sicilian airports. Sicily Island in the middle of the Mediterranean, has two international airports, Catania and Palermo. Of international have only the name, because their operation is an economic disadvantage, temporal and image for its population.



The numbers give us a very close and meaningful representation of reality. Have compared through a standardized system of parameters these airports with the Roman Empire, confirms the view of our initial contribution.

All analyzed parameters (cost, travel time, average waiting time, lost profits) lead to one conclusion statistically significant: the Sicilian airports to their people do not have an international business potential than the position at the center of the Mediterranean. Not be random to reach Kenya from Catania or Palermo and being forced to having to embark for Rome or Milan and then head for Africa. But Sicily is at the heart of the Mediterranean, and Rome or Milan.

If we move from Sicily to the Emirates, you must first make a stopover in Rome or Milan. These costs, travel times and waiting times which weigh very heavily in the pockets of travelers in Sicily. Yet you continue to speak of Sicily in the middle of the Mediterranean! They are political slogans and nothing else!

To contribute through research to the representation of reality, is a social duty and a stimulus for further research.

## Biography

**Giorgio Skonieczny** - Associate Professor of Economic Statistics in University of Catania, lecturer in Economic Statistics for business and in analysis spatial statistics. His research activities focus on spatial statistical evaluations on the quality of life, assessment process for project financing in public bodies: statistical methods, best practices, feasibility studies and economies of scale, Statistical models to estimate and classify the income function in sector studies.

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## COMPETENCE DEVELOPMENT IN THE ENTERPRISES IN THE TRANSITIONAL ECONOMY MODEL: THE CASE OF LITHUANIA

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### Abstract

Despite of growing importance of competence development in the enterprises for the competitiveness of economy and social cohesion, there is a lack of research and information about the process of competence development in enterprises and especially about the approaches and strategies of competence development in the enterprises, considering their relevance and appropriateness to the challenges of transition economies.

The purpose of research is to disclose the influence of the socioeconomic and institutional changes of the transition economy and society to the specificities of competence development in the enterprises of Lithuania..

Approach of research is based on the historical and processual analysis of influences of different factors of socioeconomic transition to the competence development in the enterprises. Methodology of research consists of the analysis of scientific literature, interviews with the managers and employees of some enterprises and case study of competence development in one selected enterprise.

The paper discloses the influences of different socioeconomic changes of the transitional economy and society to the competence development in the enterprises of Lithuania, helping to understand the complexity of evolution of this process.

**Keywords:** Competence development, transitional economies, continuing vocational training, skills needs, competence development policies

### Introduction

Today competence development indisputably occupies one of the most important positions in the strategies of the enterprises in the conditions of intensifying international competition, globalization of markets and increasing shift towards the competition on quality and innovations. This is valid not only for so called developed postindustrial economies, but also for the transitional economies experiencing intensive and fast development of market economy. Here competence development becomes crucially important source helping to compete in the market and to catch-up the competitors from the developed economies. Competence development in the enterprises became important object of the European Union economic and social policies and strategies (Lisbon strategy), as well as of national strategies

of human resources development. Despite of that, there is a lack of research and information about the process of competence development in enterprises and especially about the approaches and strategies of competence development in the enterprises, considering their relevance and appropriateness to the challenges of transition economies.

The core objects of this research are competence development in the enterprises of Lithuania. The goal of research is to disclose the influence of the socioeconomic and institutional changes of the transition economy and society to the specificities of competence development in the enterprises of Lithuania.

This goal is achieved by:

- Analysing theoretical aspects of competence development in the transitional economies and societies.
- Discussing the influence of socioeconomic, institutional and political changes to the evolution of competence development in the enterprises of Lithuania.
- Describing the specificities of the process of competence development in the enterprise of Lithuania.
- Discussing the potential impact of the instruments of the national education and human resource development policies to competence development in the enterprises.

Applied research methods:

- Analysis of scientific literature and documents (desktop research)
- Interviews with the main experts and stakeholders in the field of competence development in enterprises – human resource development managers and directors of enterprises.
- Case study of competence development process in the enterprise based on the interviews and discussions with the employees and specialists.

### **Theoretical aspects of competence development in the transitional economies and societies**

Competence development in the enterprises, as an object of scientific research is complex and multifaceted phenomenon attracting attention of researchers from psychology, sociology, management science and other disciplines. Researching competence development in the enterprises of so called transitional societies and economies requires to consider different political – economical aspects of these societies and economies, as well as the characteristics of institutional development and their influence. Therefore in this chapter we will examine some theoretical approaches and frameworks to competence development discerning the aspects which can be applied in analyzing and explaining specificities of competence development approaches in the enterprises of Lithuania.

Discussing the dependencies between the competence development and contents of work, Argyris claimed, that changing contents and organisation of activities requires to change contents of applied competences in the enterprise: competence in productive reasoning 'was not used when it came to leading and learning about human issues such as trust, openness, honesty and courage' (Argyris, 2006). According to this argument, the governing values, policies and practices determine the type of competences to be developed and used and the criteria of employees' competence are affected by the work environment. It is also noticed negative influence of the defensive reasoning to the sense of confidence in the competence of employees. These notions are interesting for our research, because competence development is regarded as relative process depending on the subjective goals and strategies of involved stakeholders and individuals, as well as on the relative influence of these stakeholders and individuals in the management and development of organization. When analyzing competence development in enterprises in transitional societies and economies, it requires paying attention to the influence of the transformations of these economies for the evolution of governing values, policies and practices determining the type of competences to be developed and used. For example, there can be noticed the influence of the legacy of Soviet planned economy and totalitarian regime to the development of defensive reasoning amongst population, explaining relatively high passiveness of employees in taking the initiatives and seeking for more autonomy in the professional field, labour relations and skills development.

Retour, Picq, Defélix and other French researchers (2009) analysed different types of competences related to the work and performance of organizations by discerning individual, collective, organizational, strategic, inter-organizational and territorial competences. Their applied logics of ascending and descending retroactions in comparing relationships between the individual, team, enterprise and inter-organisational levels of competences can be useful in analyzing the cases of competence development in the conditions of structural socio-economic transformations and transitions. We can draw an assumption, that socioeconomic, political-economical and cultural changes in the society, as well as structural changes in the business environment of the enterprises can have very different impacts on the development of individual, collective, organizational, strategic, inter-organizational and territorial competences (as well as the different impacts on the relationships between the development of these types of competences). There can be discerned the following research questions, which arise analyzing the results of research of the above mentioned researchers: What are the conditions for development of collective competence from the interactions between the individual competences in the context of structural socioeconomic changes and transitions (implementation and development of the market economy and civil society, European integration, etc.)? How the restructuring of economy and organizations, leading to intensified migration of workforce and circulation of employees between enterprises influence development of individual and collective competences? How the emergence and development of cooperation between the enterprises in the formation of market economy

influence the development of inter-organisational and organisational competences? Search for the answers to these research questions requires to regard competence development in the enterprises as complex, multidimensional and historically evolving process, influenced by and influencing the socioeconomic changes in society.

Winterton (2009) analyses the diversity of approaches to competence development and competence-based training, discerning certain European competence models. Outcomes of his research imply, that competence development in the enterprises of transitional economies and societies is inevitably and strongly influenced by the already established European competence models and approaches. Analysing typologies of European competence models, there can be noticed the links between the socioeconomic models of vocational education, social dialogue and approaches to competence development in the enterprises (Winterton, 2009). Enterprises in the newly established market economies usually lack of know-how and experience in competence development and are very open to borrowing and application of practices and methods of competence development from the 'attractive' models of economy, very often without any critical assessment of these practices and their suitability for the organizational, social and cultural context. Therefore it turns to the 'mechanical' borrowing and application of the foreign experiences, instead of learning from these experiences in developing original solutions of competence development. In case of Lithuania one of the most attractive model of competence development is functional approach to competences typical for the British model. This approach is attractive due to it's strong relations with the effective individual and organizational performance in accomplishing of work tasks and objectives defined by the market needs. Some business sectors, especially those related to high technologies, engineering, machinery production, etc. are inclined to more holistic occupational approach to competence, similar to 'German' competence model, which stresses the importance of vocational action competence (Handlungskompetenz), specifying domain competence (Fachkompetenz), work process knowledge and learning competences (Methodenkompetenz and Lernkompetenz)(Winterton, 2009). Winterton also analysed influence of the socioeconomic VET regimes and social dialogue approaches to the development of different types of competence models. This research pays attention to the importance of VET regimes and patterns of social dialogue for the evolution of competence development in the enterprises. This aspect is very important for the research of competence development in the enterprises of Lithuania: state regulated and school based VET regime and deregulated weak social dialogue exerted mostly at national level both directly and indirectly influence the competence development in the enterprises and it is important to consider these influences. For example, state regulated and school based VET regime faces problems in satisfying short term skills needs of the enterprises, what demands from the enterprises additional investments in the workplace training of recruited graduates of VET schools and deregulated weak social dialogue creates obstacles for the development of cooperation between VET providers, employers and trade unions in more systematic way.

Brockmann and her colleagues (2009) in the research of competence development in the construction sector analysed the dependency between the understanding of the concept of competence, its development and the characteristics of workforce skills. Referring to this research there can be noticed, that one of the factors, which influenced attractiveness of the British functional approach to competence development in the enterprises of transitional economies of the Central and Eastern Europe is a strong conceptual relation of this competence model to the performance of tasks and output in the workplace. It is also related to the fact, that the concept of competence was not used in the human resources field in the Soviet period and the functional models and approaches to competence and its development was very attractive in the context of strong liberal orientation to market economy (Laužackas, Tutlys, Spudyte, 2009). It also raises other interesting research questions. How the competences and human capital, developed in the period of planned economy were restructured and redeployed in the new conditions of the market economy? What inherited experience and models of thinking of managers and employees inhibit or enhance competence development in the organization? How the changes of generations of managers and employees influence the competence development in the societies experiencing radical socioeconomic changes and transitions?

Storey and Salamon (2008) analyse the influence of business models to the competence development, considering pressures of international competition to increase skills levels of workforce and governmental policy initiatives in the fields of education, training and labour market, stressing the needs and importance of policies oriented to the enhancement of demand of high skills in the public and private sectors. This research rises the question on how the dynamics of competition can influence the choice of competition strategies based on pursue of higher value added production or on price-based competition. Here it is important to consider how the external socioeconomic and political-economic conditions and developments in the transitional economies and societies influence the choices between these competition strategies and, subsequently, influence the choice of competence development models and strategies.

Zarifian analyses historical development of the models of competence and qualification (2004). The models of qualification and competence, according to this researcher, develop in the constant confrontations and tensions between the Taylorist work organization and emerged new forms of the work organization and performance based on the autonomy of the performer and capacities, which ensure the individual performance. In designing the model of competence this author stresses the importance of initiative and autonomy of performer. These characteristics also play crucial role in the competence development. Application and usage of individual resources (formal education, acquired qualifications, experience, training and ethical approaches) is interrelated with the exerting of initiatives of individuals in the professional situations (successful cope with situations, events, customers and problems) and with the mobilization of collective resources (support from the colleagues, guides, exemplary

cases, network of experts, training actions and information flows). Using this theoretical framework in the analysis of the competence development in the enterprises experiencing impacts of transitional economies there can be disclosed and described differentiated impacts of these changes to the individual and collective resources for the exerting of the initiative and autonomy on the workplaces and work situations.

Team of researchers in the Leonardo da Vinci project 'Country Specific thematic analysis of continuous vocational training on the basis of CVTS2 and modeling of CVT-structures' explored different qualitative and quantitative aspects of the continuing vocational training and competence development of employees in the European countries trying to explain the results of the Eurostat Continuing Vocational Training Survey. The insights of this research about the development of the training cultures, markets and public support to training are useful in understanding the specificities of these phenomena in the transition economies (Markowitsch, Hefler, 2008).

Above analysed theoretical approaches disclosed wide range of questions, which can be interesting for the analysis of the competence development in the enterprises of transition economy. Limited volume of this paper permits to cover only part of these questions. Therefore we can outline the following research questions:

- How the different socioeconomic, institutional and political changes of transition economy and society influenced the evolution of competence development in the enterprises of Lithuania? Amongst a big variety of these changes we discern the privatization process, institutional restructuring of society and development of social partnership relationships, upturns and downturns of economical development and the integration of Lithuania to the European Union.
- What is the potential influence of the new competence based instruments of state reforms of education, training and human resources development (National Qualifications Framework) to the competence development of the employees in the enterprises ?

### **Evolution of the competence development in the enterprises of Lithuania since 1990**

Competence development in the enterprises of Lithuania evolved as the cumulative set of reactions of enterprises and related stakeholders to the complex challenges of socioeconomic transition to the market economy and democratic society. Further provided analysis of this development shows, that the evolution of competence development in the enterprises was not even and continuous process and experienced sharp disruptions from the even pathway of development. There can be discerned the following main socioeconomic changes which influenced shaping and evolution of competence development processes in the enterprises:



1. Restructuring of economy after the collapse of Soviet Union and centralized planned economy system. It involved different important developments such as privatization of the former state enterprises, closure and restructuring of the former big industrial enterprises established in the Soviet period, sharp decline of the industry and gradual growth of the service sector etc.

2. Institutional changes and transformations of society, especially development of the social dialogue and its stakeholders, institutional development of the public provision of continuing training and its relationships with the national education system, as well as legal regulation of the continuing vocational training.

3. Upturns and downturns of the economical development in the period since 1990, which involved the decrease of the economy in the initial restructuring phase and during the period of Russian economic crisis, upturn of economical development in the period of 2001-2008 and subsequent economic crisis.

4. European integration process, which involved access to the European Union in 2004 and related challenges in the activities of enterprises – opening to the competition in the EU market of goods, services, capital and labour, intensified migration of the workforce, compliance with the new standards concerning quality, safety and other issues, etc.

Further we will shortly examine how the reactions of enterprises and their stakeholders to these socioeconomic changes influenced the formation and evolution of competence development approaches and processes.

Fast changes of the economical and legal status of the enterprises, as well as opening of the free market relations created demand of the new competences in the all levels of human resources. There appeared rather important incompatibilities between the existing skills and qualifications which were acquired in the Soviet period and the new skills needs:

<i>Characteristics of the planned economy</i>	<i>Legacy of planned economy: implications to the skills profiles and qualifications of the workforce</i>	<i>Changes involved by the shift to the market economy</i>	<i>New skills needs</i>
<i>Priority is given to the heavy industry and production of the means of production ignoring the needs to develop other sectors of economy.</i>	<i>Very important part of the skilled workforce is occupied in the big industrial enterprises, their skills profiles and professional experience are shaped by the bureaucratic industrial work organization and oriented to the execution of the prescribed functions and</i>	<i>Increasing diversification of the economy with the decline of the industry, closure and restructuring of the big industrial enterprises, gradual growth of the tertiary sector with the domination of the small and medium enterprises, privatization</i>	<i>Increasing need for the extra-functional and key skills (work with PC, foreign languages, communication, decision making etc.), entrepreneurship, management and commercial know-how and skills.</i>

	<i>tasks. The basic and most important part of skills and qualifications consists of specialised professional knowledge and skills.</i>	<i>of the former state enterprises and opening to the free market relationships.</i>	
<i>Centralized planned economy, formal planning of resources with weak relations with real needs and possibilities. Problem of coordination in the supply of resources creates the situation of the forced and obligatory provision of resources causing ineffectiveness of economy and big losses.</i>	<i>Planned economy and its close relations with the education and training system permitted to achieve comparatively high rates of educated and skilled workforce (Gyls, 2008). It also facilitated to the development of thinking that the acquired skills should necessary lead to the employment in certain workplaces and that these skills should be acquired in the formal initial education and training (Analysis of the current state of qualifications in Lithuania, 2006).</i>	<i>Transition to the free market relationships and development of the free labour market, where skills needs are formulated and influenced by the needs of goods and services in the market. Increase of the structural unemployment caused by the quantitative and qualitative inconsistencies between the existing skills structure of workforce and labour market needs.</i>	<i>Decrease of the need of specialized skilled workforce and increased needs for the young, multi-skilled employees. Part of the skilled workforce had to find their new employment possibilities in the unskilled jobs. High uncertainty of the transitional period of economical development demanded from the employees to be ready to update their skills and competences through the independent learning on the job and in other ways.</i>
<i>Lack of the motivation for the development and growth of productivity, because there is no interest to increase the plans of production.</i>	<i>Lack of strong demand and motivation to increase the productivity facilitated the development of the approach to skills and qualifications as to 'stable' capacities with the finite process of their acquisition and development.</i>	<i>Increasing pressure to increase the productivity in order to survive in the market competition. In the same time the possibilities to increase the productivity by investing to the new technologies or implementing more effective ways of work organization were very limited due to the shortages of financial resources, skills and experience.</i>	<i>Increasing demand for the skills and competences needed for the implementation of the new technologies and ways of work organization. Increasing need of the learning skills.</i>

*Table No.1. Incompatibilities between the existing skills and qualifications which were acquired in the Soviet period and the new skills needs. Source: own description*

### **Impacts of privatization process**

Looking into the influence of the privatization process to the competence development in the enterprises there can be noticed the following factors:

1. In the big part of cases the privatization of the former state enterprises did not facilitate the establishment of the new owners with the new business ideas and possessing the capital for their implementation. 'Often the nominal owners of privatized enterprises were the employees of the enterprise keeping the factual control of such enterprises in the hands of their former administration.' (Norkus, 2008). Such situation significantly precluded the development of the new approaches to human resources development and competence development in the enterprises, because such owners in the most cases could not understand the importance and weight of these processes in the conditions of the market economy. The top-down formation of capitalist relationships, when the former political-bureaucratic elite took important part in privatization process "did not bring new capital or managerial competences and caused the processes of economic involution which manifested itself as decline of industry, barter exchanges, delays in payment of wages or their payment in kind, outflow of capital abroad." (Norkus, 2008). As it is noticed by Norkus, one of the most destructive consequences of such ownership of privatized enterprises is the technological downgrading of the production, when enterprises which former produced high technology or high quality products which can be competitive in the export markets shifted to the production of primitive products for the local market, thus inevitably losing the high skills. Nevertheless the loss of the high skills in this period was related not only because of the ownership situation, but also (and even more) due to the conversion of the markets, when part of the industrial enterprises lost their former markets in the former Soviet Union territories and could not find alternative export markets for the same products forcing them to focus on the needs of the domestic market.

2. One of the most popular legal forms of enterprise organization in Lithuania became closed private company limited by shares. The closed character of such enterprise prevents their owners from the hostile take-over by the competitors and does not create such a pressure to maximize the short-term profits as in the shareholder capitalism model. However, it also did not create any additional incentives and interests of the owners to invest in the competence development of the employees and made the competence development almost totally dependent on the position and approach of the company owner.

3. Above mentioned factors together with the other objective factors, such as lack of financial resources and capital for investment in technologies and human resources led to the domination of the competition on prices and low cost of workforce. Most of the companies regarded training and competence development mainly as a source of costs and seek to minimize the funding and volume of training in different ways: by concentrating and limiting the investments to the competence development of strategic staff (managers, engineers, technology developers), while refusing or significantly cutting the training provision to blue collar workers and limiting this training only to the obligatory training provision in such fields as work safety, or limiting to the short introductory training of the newly hired graduates of VET schools and universities, lacking of practical skills and experience. Probably

one of the legacies of the planned economy system was attitude of employers, that the main and even sole responsibility for the preparation of the completely skilled (plug in and play) workforce lies on the initial vocational training institutions liberating the employers for any obligations in the field of training (Tutlys, 2006).

### **Influence of the institutional restructuring of society during the socioeconomic transitions and transformations**

Another important factor which influenced the evolution of competence development in the enterprises of Lithuania was institutional restructuring of society during the socioeconomic transitions and transformations. The scope of this paper does not permit to analyse these processes in detail. Therefore we will discern only some elements and factors which we consider as the most important for the evolution of competence development in the enterprises:

1. Development of the social dialogue. The influence of the social dialogue, employers organizations and trade unions to the development of initial and continuing vocational training is widely discussed in the political economy and human resource development literature (Hall, Sockice, Streek, Winterton, etc.). Social dialogue and it's participants can play very important role in enhancing and enabling the competence development processes through design and implementation of the legislative and political instruments on the national level (for example, recent Social modernization policy in France), setting the institutional contractual mechanisms of the provision and development of continuing training on the sector or inter-sector level (Germany), or enhancing and implementation of the competence development practices in the enterprises (the role of trade unions in provision of continuing vocational training in the UK) (Winterton, 2007). Looking into the evolution of the social dialogue in Lithuania, the can be noticed delayed and weak formation of the trade unions and employers' organizations – most of the employers organizations and trade unions really acquired some institutional significance and weight within several years or later after the reconstitution of the independent state in 1990. The formation of the trade unions in Lithuania can be characterized by the pluralism, decentralization and fragmentation (In 2001 there were officially registered 130 trade unions) (The enlargement of social Europe, 2005). Established trade unions were closely related to the activities of political parties and seek their support declaring different political orientations (Krupavicius, Lukošaitis, 2004). Looking into real priorities and modes of action of the trade unions there can be noticed, that these priorities concerned more the defence of the interests of employees on the political level and the divisions of the inherited material assets from the period of Soviet union, than the work for the defence of employees interests on the sector or enterprise levels. This situation can be explained by the absence of the know-how and experience of such interests representation and defence (former 'Soviet' trade unions did not exercised these functions – they we used mainly as instruments of indoctrination and control of the workforce) and the absence of the capable leaders with the corresponding leadership skills

and recognition amongst the represented employees (Analysis of the current state of qualifications in Lithuania, 2006). Equally, these trade unions have not had any know-how and experience and know how in the field of competence development and continuing training of the employees. Very similar trends can be traced in the development of employers organizations. At the initial stage the establishment of employers organisations was very fragmentary, instable and weak. Only in some 10 years after reconstitution of the state there risen more or less stronger leaders amongst employers organizations - Confederation of the Industrialists of Lithuania and Confederation of Business Employers of Lithuania (Krupavicius, Lukošaitis, 2004). Although the employers organisations are not so politically engaged as trade unions, they also exercise their power and defend the interests of employers mostly through the lobbying and pressure to the national political powers. Very similarly to the case of trade unions, employers organizations lack of experience and know-how in the field of continuing training and human resources development and these issues never appeared on the list of the priorities of their activities. Partial exception here is the Chambers of Industry, Commerce and Trade, which were established partially following to the German model and which exercise some training activities for the enterprises and are engaged in the assessment of competences in the initial vocational training. Due to above described reasons the social dialogue on the national and sectoral levels is very weak and overly formal. Neither trade unions nor employers organisations have sufficient representative power and trust from the interest groups to make the real engagements in the social dialogue and to ensure the execution of such obligations. It considerably weakens the capabilities of trade unions and employers organizations to play the role of facilitators or initiators of competence development in enterprises or to support this process on the enterprise, branch or national policy level. Recently there can be noticed some signs, that employers organisations and trade unions increase their awareness and interest in training and competence development issues through the involvement in certain national projects, such as design and implementation of the National Qualifications Framework, implementation of the competence development projects of their members.

2. Institutional development of the public provision of continuing training and its relationships with the national education system. One of the most important factors in this field was the activity of so called National Labour Market Training System aimed to provide the reskilling and training for the unemployed persons and those under risk of unemployment. This system was established in 1992 by the Ministry of Labour and Social Affairs and consisted of the Labour Market Training Authority responsible for the curriculum design and management of training and the training centres established in the regions of Lithuania which provided the training for the unemployed persons or those who are under the risk of unemployment. One of the most significant roles of this system in the development of continuing training in the enterprises was the provision of training and competence development for the medium and low-skilled employees. This institution became the main

public provider of the continuing training and helped to solve continuing training problems of the low-skilled and unskilled employees, when enterprises could not afford the investments in the training of this workforce. Some initial vocational training institutions (VET schools and regional VET centres) also provide such services of continuing vocational training.

3. Legal regulation of the continuing vocational training. There can be noticed that the legal basis regulating the provision of continuing vocational training and competence development in the enterprises is quite fragmentary. Employers and their organizations, as well as trade unions miss the laws or legal regulations which support the investments and development of continuing training through the tax exemptions or alleviations to employers and employees investing in training. However there have not been any significant coordinated efforts of employers organizations, trade unions and government to discuss the issues of legal regulation of continuing training on the national level of tripartite social dialogue.

### **Impacts of the upturns and downturns of economical development**

Upturns and downturns of the economical development have had the following influence to the evolution of the competence development of employees in the enterprises of Lithuania:

1. The provision of continuing vocational training and competence development by the enterprises became dependent on the economic situation. In the period of economic upturns the increase of demand for skilled labour enhanced the increase of the investments of the employers to the competence development of employees, while in the period of economic downturn the shortage of financial resources decreased and limited the provision and funding of competence development from the side of employers. The economic downturn which started with the restructuring of the economy after 1990 had influenced the orientation of the many enterprises to the low-way strategy of survival by competing on price and low labour costs leading to the no-training policy or limiting the provision of training to the obligatory training prescribed by law. It contributed to the development of certain long-term restrictive approaches of enterprises to continuing training and competence development, which remained even when the economy started to recover and develop. It can explain the insignificant changes of the statistical data of provision of continuing training between the 2000 and 2005, when Statistical Department of Lithuania executed the statistical surveys of continuing training coordinated by the Eurostat (Continuing Vocational Training Surveys – CVTS). According to these statistical data in 2005 the continuing vocational training was provided by 46% of enterprises and comparing to the situation in 2000 the share of enterprises providing training for their employees increased only by 3% and was still lower than the average indicator of the EU countries in 1999 (62%) (Statistikos departamentas prie Lietuvos Respublikos Vyriausybės, 2007). The similar tendencies can be noticed from the dynamics of the number of employees involved in continuing training and their share in the total workforce:

<i>Year</i>	<i>Number of employees involved in continuing vocational training</i>	<i>Share of the total workforce %</i>
1999	60 thousands	10
2005	106 thousands	15

*Table No.2. Number of employees involved in continuing vocational training 1999-2005. Source: Statistikos departamentas prie Lietuvos Respublikos Vyriausybės (Department of Statistics Lithuania).*

While the number of employees involved in continuing training (in absolute values) increased, the increase of the share of the 'trained' workforce was very modest. These indicators are amongst the lowest comparing to other EU countries.

It is worth to consider the differences of the economic situation between these two dates: 1999-2000 was the period of economic decline due to the Russian financial crisis which seriously hit the performance of many enterprises for which Russia by than period was the main export market, while the 2005 was the time of fast economic growth in many sectors with the rapidly growing demand of skilled labour. Despite the fact, that in 2005 the spendings of enterprises to the competence development of employees increased 2 times comparing to the spendings in 1999 (from 74 million Litas to 152 million Litas) the total share of these spendings in the anual labour expenses of enterprises made only 1,2% and was 2 times lower than the EU average (2,3%). About 84% of surveyed enterprises (CVTS2 survey) did not foresee any funding for training of employees. 85% of the surveyed enterprises which did not provide continuing training for employees indicated, that the main reasons for non-training was the sufficience of the existing skills of employees for the needs of enterprise, 75% of these enterprises indicated that they recruit only competent employees with suitable qualifications, 53% of enterprises indicated high training costs as as the main impediment for the provision of training (Statistikos departamentas, 2007).

The current economic downturn has very different influence to the competence development in the enterprises: many enterprises entirely cut their spending on training, while some enterprises only restructure their investments in training by making more strict differentiation of priorities. As it is expressed by one human resource manager of industrial enterprise: During the downturn of economy it is necessary to answer the questions what kind of competences are the most important for us, which employees are the most worth to train and what is the use of training to the employee and enterprise.

Decreased budgets for training and more limited possibilities to find the substitution for the employees involved in external training (due to the reduced staff) makes employers to pay more attention to the training needs analysis. There is noticed increased demand in individualized training and open seminars, where the contents of training is selected according to the competence level and work tasks of employees.

In the period of economic upturn of 2003-2008 the growing demand of skills together with the increasing shortage of skilled workforce due to the growing emigration influenced the increase of the volume of the internal training and competence development combined with hiring of external workforce. For example, sharp shortage of skilled workforce in the rapidly growing construction sector made the enterprises of this sector to recruit any workforce independently from their possessed skills and competences and to provide the needed skills and competences on the workplace. As it was evidenced by one employer in the interview made in 2006:

Today we have such strenuous situation in the labor market of Lithuania, that the employers take any available persons and train them to provide the skills and competences required by the work. However there is a big risk to invest in the training of the employees, because in case if they leave after the training we experience big losses. Therefore selecting the candidates for the training we want to be 100 percents sure about the loyalty of the employee and his (her) motivation to work for the well being of the company.

The interviewed employer mentioned quite widespread practices of the poaching of skilled workforce which were supported and enhanced by the factors which we indicated in the previous sections of this paper: weak and fragmented social dialogue on the sector and national level, weak influence of the trade unions and employers organizations in field of human resource development, low social trust, domination of the competition on price and cheap labour, which enhance job-hopping practices, etc. Poaching of workforce is also enhanced by the territorial differences of the economical development and concentration of the higher quality jobs in the bigger cities of the country. Therefore the companies in the bigger cities attract the employees from the smaller cities and areas. These problems are still very important for many sectors in Lithuania, especially for the construction, metalworking, transport sectors and they have negative influence on the development of the continuing vocational training at the company and at the branch level. The companies used to solve this problem in 2 main ways: either by increasing the wages of the employees seeking to stop the increased turnover of the workforce or by concluding the contracts with their employees which posed the obligations for the employees to remain at the company for the certain period after the training financed by the company. The first way required to search for the possibilities to increase work productivity by investing in technologies, revising existing work organization and turning from the competition on price to the competition of quality. Therefore such enterprises had to increase the volume of continuing training and competence development. This tendency still can be noticed in some export oriented industrial and service enterprises having their own products and services and working as subcontractors for the customers abroad. For example, one interviewed human resource manager of the big chemical industry enterprise noticed:



Within the last 10 years the skills and competences of our employees have been constantly growing, because our company makes significant investments to the different kind of training. Big investments to the new technologies also facilitate important growth of the skills of employees. These processes of the development of skills and competences of employees have been also supported and enhanced by the general changes in our society, global changes of the markets and the process of the integration to the European Union.

Other companies try to increase the productivity through the reorganization of the management structure, implementation of the new systems of motivation and career management of employees, seeking to attract more young and high skilled employees.

One of the interviewed enterprises working in the civil engineering field apply the competence development strategy based on the systemic approach towards the assessment of performance, competence development, career management and wage setting, ensuring close and flexible relationships between these processes. This competence development strategy combines the apprenticeship of the young employees by placing them in teams or pairs with the experienced employees and enabling the transfer and exchange of the experience and know-how, and the provision of the individual possibilities to learn and develop competences needed for the work. 'It helped us to increase the number of skilled and qualified employees, as well as to increase the autonomy of these employees.'

The second way with setting the contractual obligations of trained employees is effective only in case of the high skilled and white collar employees, because they are supported by the motivating factors, such as career prospects and wage increases. For example, the representative of the construction company interviewed in 2007 stated, that this company used to conclude such continuing training contracts with the high skilled specialists or managers. The training of blue collar workers was provided in the way, that it would have not required important investments and would have not provided transferable skills or qualifications. For example, most of the low skilled and unskilled workers in the construction sector acquired their professional skills and competences at the workplace working together with the experienced workers. Rather often the training of the blue collar workers is very narrowly specialized and closely related to the needs and specifications of the concrete workplace.

### **Influence of the European integration process and entering of Lithuania to the EU**

Integration to the common EU market not only provided new business opportunities but also presented the challenges to compete for the skilled human resources in the common labour market. Here there can be noticed two important processes of transfer and mobility: emigration of the workforce from the country and increased rate and volume of outsourcing practices amongst the enterprises, when they become the subcontractors or partners of the companies from the 'old member states'. Regarding the emigration, it started to cause skills shortages and related recruitment and human resource managements problems for the

enterprises even before the entering of Lithuania to the European Union in 2004. It is generally and widely acknowledged by many employers that they can not compete for the skilled workforce with the enterprises from the Western Europe due to the big differences of wages and much limited financial possibilities:

Emigration presents a big danger for our enterprise because we loose skilled employees, which are very needed. We can not compete with the Western European countries for the skilled workforce because the wages which we can propose are much lower then in these countries.

Enterprises also recognize, that the emigration of skilled workforce is usually caused by much more complex reasons than just level of economic development and welfare. As it was noticed by one human resource manager:

Emigration is a reaction of people to the set of internal problems of the country: lack of economical and political culture, decreasing quality of education, narrowing employment possibilities etc. All these issues have the influence on the decision of people whether to stay or to leave. Here also lies the answer to the question what should be done by the enterprise in order to sustain the workforce in the company - we need to propose and develop complex programmes of motivation, social support, promotion and career. Today the annual emigration rate of employees in our company makes 1-2 percents of our workforce.

Outsourcing of activities and production can also include the transfer of certain practices of skills development and upgrading together with the new ways and approaches of technologies and work organization. Such 'import' of competence development practices and know-how can lead to the enrichment of the human resources of enterprises. One of the most important factors here is the profile and level of the outsourced production and services: how much skill and knowledge intensive they are and how much the participation in such partnership contributes to the growth of the existing competences of the human resources. Regarding the situation in Lithuania there can be noticed the qualitative change in the development of outsourcing activities: if at the beginning stage there was 'imported' mostly low-skilled and unskilled work (especially in the sectors of textile, metalworking), now the outsourcing activities involve more and more skill and knowledge intensive production (beginning from the biotechnologies and laser technologies and ending with IT services, machinery production, chemical industry etc.).

### **Competence development in the enterprises of Lithuania: case study**

This case study will provide to see the evolution of competence development processes and the above described impacts of transition economy to the competence development in the context of concrete enterprise. The data for case study were obtained through the in-depth interviews with the employees and managers of the enterprise.

Analysed middle size industrial enterprise (300 employees) belongs to the sector of engineering and machinery production, being the leading producer of the equipment for the food, beverage and chemical industries in the region. Competence management and development have played a major role in the restructuring and development of this enterprise. In the Soviet period this enterprise produced industrial laundry equipment. Collapse of the Soviet planned economy and entering into free market relationships brought significant challenges as it was a case for many industrial enterprises at that period amongst which we can mention the loss of the former customers and users in the former Soviet Union and Central and Eastern Europe and the shift to the new demands of market in terms of quality and quantity. It required to find the new markets and to converse to the production of the new products. Reorientation to the new market niches and new customers needs involved the analysis of market needs and identification of the available individual and collective technological competences, which can be used in the design and manufacturing of the new products:



*Fig. 1: Competences in the identification of the new market niches*

There were distinguished technological competences (mechanical processing and welding of stainless steel, designing of equipment, etc. ) which constituted the basis for the development of the new organizational technological competence and know-how in the new identified field of activity – production of the equipment for food and beverage industry. The shift to the new field of production permitted to start the incremental development and upgrading of these competences through the experiential learning, recruitment of the new skilled workers and specialists, continuing vocational training provided by the enterprise or by the providers of the acquired production technologies and equipment. Production of the contracted products to the foreign customers facilitated development of practical technological skills and knowledge of workers, especially the skills related to quality and production time management. Part of the inherited practical skills and competences became obsolete or inconsistent due to the change of the produced products and technologies. Transfer from the standardized serial production to more customized and non-standard products increased the importance and role of transferable practical skills and competences, as well as skills and competences needed for the accomplishment of multi-tasks. There

appeared wider range of work situations due to the increased variety of product types and specifications. Production of non-standard products required higher developed capacities of operators to make operative decisions about quality assurance, solution of different operative technological problems. In the same it required more intensive consultations and cooperation between the workers and engineers, designers and other specialists. It facilitated development of related functional skills and knowledge.

Market relationships and competition had the major impact to the development of managerial competences. In case of managerial competences the possibilities to use available pool of competences were much more limited, comparing to the case of technological competences, because available knowledge and experience of management and work organization inherited from the period of planned economy was irrelevant in the new conditions of market economy. There was a need to acquire and develop theoretical know-how in the field of management. This knowledge was acquired from the different external providers and combined with the available know-how and experience. Introduction of the new practices and approaches of work organization influenced development of organizational competences. Introduction of the work organization based on the units of value generation and responsibilities of product managers led to the development of specific organizational competences consisting of combinations of team-working and individual responsibility in the process of production. Introduction of new management practices enhanced the recruitment of the new young managers, most of them had higher education degrees in the field of engineering.

Today international competition presents new challenges and objectives for the competence development. The most important challenge is related with the objective to shift from the delivery of equipment and accessories to the development and production of advanced technological solutions, ensuring higher added value. It demands to develop the competences related to R&D activities and development of technological innovations, as well as to upgrade the competences of marketing, sales and product managers needed for the marketing and sales of innovative products. Therefore these new challenges of competitiveness demand to take more active approach in the field of competence development, paying more attention to the development of high skills, as well as upgrading the skills of workers and operators working with the modern technologies and equipment.

### **Implementation of the competence based National Qualifications Framework and its potential influence to the prospects of competence development of employees in the enterprises**

Competence development increasingly becomes the interest field of national policies of education and human resources development in many countries. One of the most popular current national policy instruments in this field is National Qualifications Framework – measure for comparison and referencing of qualifications on the basis of learning outcomes or

competences. Lithuania makes no exception here. The process of design of the National Qualifications Framework of Lithuania started in 2006 and in May 2010 the descriptors of the National Qualifications Framework were approved by the decree of the Government. What is the potential influence of this instrument to the competence development of the employees in the enterprises and what basic characteristics of the framework will ensure such influence? (See table No.3)

<i>Characteristics of the National Qualifications Framework of Lithuania</i>	<i>Potential influence to the competence development of employees in the enterprises</i>
<i>Competence based National Qualifications Framework: descriptors of the levels of qualifications are described in terms of competences, which are defined as sets of knowledge, skills and key skills required to perform work tasks. The levels of qualifications are defined referring to the requirements of the complexity of activity, autonomy of performance and changeability of activity to the needs of functional, cognitive and general competences.</i>	<i>Competence based National Qualifications Framework can be used as a reference tool for the management and development of human resources in the enterprises. Introduction of the framework will help to the employers to understand the levels of qualifications of employees or candidates for the job in the process of recruitment. It will also help to analyse the training needs and plans of professional development and career of employees. Therefore it can facilitate the development of more structured and planned approach of enterprises to the continuing vocational training of employees.</i>
<i>National Qualifications Framework of Lithuania consists of 8 levels of qualifications, which are smoothly compatible with the levels of the European Qualifications Framework (EQF).</i>	<i>Smooth compatibility of the National Qualifications Framework with the EQF creates better possibilities for the mobility of workforce and learners and for the acquisition and development of qualifications in the different countries. Therefore it can have different consequences for the competence development in the enterprises: It can motivate the employees to learn and acquire the skills and knowledge which contribute to the competitiveness and mobility in the European labour market. Transparency and clarity of the system of qualifications (which is fostered by the NQF and EQF) can enhance the foreign investments and subsequent import of the workplaces of different quality (including knowledge and skills intensive workplaces) in this way contributing to the expansion of continuing training. Increased possibilities of workforce mobility inevitably increase the risk of the loss of trained skilled employees, especially if the enterprises financially and economically are not capable to compete with foreign counterparts in offering competitive wages and career possibilities. Therefore it can decrease the incentives and readiness of the part of enterprises to invest in competence development of employees.</i>
<i>Comprehensive National Qualifications Framework encompassing all the qualifications provided in the formal, informal and non-formal ways. The NQF of Lithuania is open for the different ways of</i>	<i>This characteristic of the framework permits to use it as guiding instrument explaining and helping to choose the pathways to the acquisition or upgrading of qualifications in the different levels. Therefore it can enhance the learners to be more active and autonomous in making decisions about their career pathways and in</i>

<i>acquisition of qualifications in the all levels.</i>	<i>setting their learning and competence development plans. It can also enhance people to pay more attention to the competence development through the professional experience and informal learning. Human resource departments of the enterprises also will be encouraged or even obliged to assist employees in validation and accumulating of their competences acquired through professional experience.</i>
<i>The 'vocational qualifications' provided and acquired in the institutions of the vocational education and training (VET schools and training centres) or at the workplace in the enterprises are referenced to the levels from 1 to 4, while the levels from 6 to 8 are reserved for the higher education degrees (so called, Bologna framework levels – bachelor, master, doctor). Level 5 represents by itself some kind or intermediary level because it encompasses the qualifications acquired through the continuing vocational training (for example, production supervisor or technician) and qualifications acquired through short study cycles in the vocational higher education institutions (these short studies are not yet introduced).</i>	<i>Rather strict separation of the levels of 'vocational' qualifications from the levels of higher education degrees and qualifications in the NQF shows certain lack of the parity of esteem between these two types of qualifications. It can have the following implications for the competence development in the enterprises:  It limits the possibilities of progression from the level 5 to level 6 (bachelor degree) through the pathway of continuing learning and training in the enterprises. The same is valid for the progression from the level 6 to level 7 (master degree) and from level 7 to level 8 (doctoral degree). Therefore it leads high skilled employees seeking to obtain these degrees to take the academic pathway of studies. Specificity of the acquisition of qualifications on the level 5 related to the crucial role of continuing training in the acquisition of qualification can enhance the skilled employees to seek for such qualifications through the competence development at the workplaces (of course, if these competences will be formalized and will lead to the awarding of qualification).</i>
<i>National Qualifications Framework of Lithuania will facilitate the coordination of the national system of qualifications (the processes of designing, provision and awarding of qualifications) together with the occupational-sector standards and register of qualifications.</i>	<i>Occupational-sectoral standards which describe the structure and contents of qualifications in the sectors with the references to the levels of the NQF provides very important and powerful tool for the employers organizations and trade unions in the sectors in order to initiate and implement different measures of competence development on the sector level: beginning from the continuing vocational training and competence development strategies and plans, skills needs forecasting and ending with the elaboration of the various training schemes and instruments according to the needs of the sector, sub-sectors or separate enterprises.  These instruments will also significantly support the planning and management of the competence development activities in the enterprises.</i>

*Table No. 3 Influence of the NQF to the competence development. Source: own description*

Effectiveness of the National Qualifications Framework as the instrument for the competence development of employees in the enterprises will be very much dependent on such factors, as the involvement of employers organizations and trade unions in the process of it's implementation and the readiness of these stakeholders to use NQF and occupational standards in their activities of human resource development. Considering all before

mentioned problems and shortages of the social partnership in Lithuania this issue becomes one of the most important challenges in the implementation of the NQF.

## Conclusion

Competence development in the enterprises of Lithuania were shaped by different factors of socioeconomic, political and cultural changes of transition economy and society. Specificities of privatization process together with the economic difficulties and challenges to survive in the market incurred domination of rather closed and short-term approach of the new owners of enterprises to competence development and continuing vocational training. Difficulties in the development of social dialogue between employers, employees and other stakeholders, as well as inconsistency of the legal basis regulating competence development impeded the establishment and growth of initiatives and involvement of employers and employees organizations in competence development. It could not facilitate establishment of consensus or common decisions of these stakeholders in the field of competence development, making competence development process very dependent on the changes of economic development and relative power of stakeholders in the industrial relations.

Challenges of competitiveness in the economic transition influenced the choices of competition strategies of enterprises in many cases pushing towards the competition on prices, what in turn enhanced orientation towards restricted and ad-hoc approaches to competence development. As it is demonstrated by the case analysis, survival in the economic restructuring and transition process and further development of competitiveness in the market enables and in the same time requires from the enterprise to change the strategy of competition turning to higher added value generating production and service provision, what in turn demands more proactive approaches to competence development.

Introduction of the competence based National Qualifications Framework can play the role of catalyst of the competence development in the enterprises if the design and implementation of this instrument is open to the involvement and participation of enterprises, employers and employees organizations.

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## **EU LISBON STRATEGY, OECD BOLOGNA DECLARATION, AND SMALL BUSINESS ACTS: THREE ENACTMENTS IN EUROPE FOR SMES**

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### **Abstract**

This study aims to explore three enactments in Europe in 2000: EU Lisbon Strategy, OECD Bologna Declaration and Feira European Charter for Small Enterprises. The EU objective is to become knowledge-based economy in order to increase the competitiveness of Europe. The EU made decisions to improve innovation, entrepreneurship and SME competitiveness. Therefore, the Lisbon Strategy aims to foster innovation, R&D and knowledge-based economy. OECD Bologna Process focuses on developing entrepreneurship and innovation in SMEs, and Feira European Charter for Small Enterprises aims to facilitate business conditions for SMEs in European context, and aims to tie innovation and entrepreneurship targets of the Lisbon and Bologna with SMEs. In conclusion, the Lisbon, the Bologna and the Charter have specific targets to achieve by 2010 but results are disappointing, especially for the Lisbon Strategy targets.

**Keywords:** EU Lisbon Strategy, OECD Bologna Declaration, Feira European Charter for Small Enterprises, Small Business Act, the EU Three Summits, 2000, Knowledge-based Economy

### **Introduction**

SMEs are key to growth and employment in Europe. Because 25 million small businesses constitute 99% of businesses, and employ 95 million people, and provide of 55% of jobs in the private sector. Therefore, European Union (EU) decided to improve competitiveness of and development of SMEs accross Europe in order to become the most competitive economy in the world.

In 2000, the EU witnessed three enactments for SMEs: the EU Lisbon Strategy, the OECD Bologna Declaration, and the Feira European Charter for Small Enterprises. Therefore, this study aims to explore the objectives of those three summits about innovation, entrepreneurship, and SMEs.

### **Three Enactments in Europe for SMEs**

The EU aims to achieve employment and sustainable economic growth in Europe.

Therefore, the EU organized three summits in 2000: Lisbon Summit on March 2000, Bologna Summit in June 2000 and Feira Summit on June 2000.

There are also review summits for the Lisbon and Bologna processes: Stockholm in March 2001, Barcelona in March 2002, Brussel in March 2003 and 2004, 2006 Summit of European Council, March 2008 Summit for the Lisbon, and Istanbul Summit in 2004 for the Bologna.

Among EU Lisbon Strategy, OECD Bologna Declaration and Feira European Charter of Small Enterprises, Lisbon Strategy acknowledges the importance of knowledge-based economy, R&D and innovation to become competitive, and Bologna Declaration recognises the importance of entrepreneurial spirit. The Feira Summit focuses on SMEs issues, and aims to facilitate the targets of the Lisbon and the Bologna for SMEs. In addition, Lisbon Strategy considers SME-employment relationship to enhance employment rate in the EU. Therefore, SMEs are as much as ever one of the core challenges in European R&D policy (Christensen, 2008).

### **Lisbon Strategy: Innovation, R&D and Knowledge-based Economy**

Lisbon Strategy has three dimensions: economic, social and environment. The Lisbon Strategy was built on knowledge, sustainable economic growth, better employment and social cohesion. Therefore, the Lisbon focuses on competitiveness, innovation and social cohesion (Siprissler, 2009).

The Lisbon has four priorities on investing in knowledge and innovation, improving the business environment, especially for SMEs, investing in people and modernising labour markets, and energy and climate change. (Christensen, 2008):

The Lisbon targets focuses narrowly on two key goals: 3% of the EU GDP is invested in R&D by 2010, and the employment rate reaches 70%. Therefore, the Lisbon only has two quantified objectives: the 3% R&D objective and the 70% employment objective.

The Lisbon Agenda has a target to become knowledge-based economy to achieve sustainable economic growth (Creel et al., 2005). Therefore, the EU plans to invest more in R&D. Because the EU considers that knowledge-based economy and R&D are key to sustainable economic growth. Therefore, firstly, science and technology have the first priority for R&D. The EU considers that Europe is behind of the USA in knowledge production. For example, in Nobel Prize, between 1980 and 2003, there were 68 Prize nomination in Europe against 154 in the USA in Physiology/Medicine, Physics and Chemistry. Therefore, secondly, promoting basic science is important for R&D. Thirdly, number of workers involved with R&D are to be increased. Number of workers joined to R&D in the EU is 6 among 1000 workers. This is 10 in the USA. The EU has a target for 8/1000 by 2010.

Performance of the Lisbon is considered disappointing in terms of achieving objectives by 2010. Results are not satisfactory for those targets specified in 2000 such as employment rate, R&D expenditures/GDP ratio, and growth performance (Creel et al., 2005). Because the Lisbon had an inefficient implementation structure due to incoherent goals, unclear division of responsibilities among various entities (Koczor, 2009). Therefore, poor results of the Lisbon

led to re-launch in 2005. The Lisbon continue to support entrepreneurship and build the knowledge triangle (innovation, education, research). There is also a post-2010 Strategy to increase the effectiveness of Lisbon implementation through changes in the Lisbon Strategy governance (Koczor, 2009).

In January 2000, the EU endorsed European Research Area (ERA) (Christensen, 2008). Objective of ERA is key to Lisbon Strategy. For example, FP6 and FP7 Research Framework Programmes is designed to support ERA.

ERA is summarized as the framework for R&D policy development, and has six dimensions: 1. Single labour market for researchers, 2. World-class research infrastructures, 3. Well-coordinated research programmes, 4. Effective knowledge sharing, 5. Opening of ERA to the world, and 6. Excellent research institutions and universities.

Overall, the Lisbon has three Era: 2000-2005 term, 2005-2008, and 2008-2010 term. The 2000-2005 term is considered as unsuccessful for the establishment of the Lisbon objectives. Therefore the EU decided to group a task force in 2004 under the presidency of Wim Kok, former Dutch president. Wim Kok prepared a report about the Lisbon. This report specifies that the Lisbon achievements are disappointing so far due to weak coordination, conflicted priorities and weak political support.

The 2005-2008 term was a rebuild and renovate era for the Lisbon. Firstly, the EU decided that the Lisbon process will be implemented in a three-year base. Secondly, there is going to be initiatives and plan of action for the Lisbon implementation in the EU level and in the country level. 2006 Summit of European Council renews the Lisbon Strategy, and determined the new action plans. According to these new action plans, the EU invests in education, innovation and research, and the EU increases its support for businesses, especially for SMEs. Therefore, the Lisbon Strategy focuses on developing favourable conditions for funding and the successful growth of SMEs.

The last summit for the Lisbon was held in March 2008. Third era for the Lisbon started in this summit. According to 2008 Summit, the EU invests in knowledge and innovation, and supports SMEs, and invests in human resources, and modernizes labour markets, and simplifying administrative procedures for businesses.

### **OECD Bologna Declaration: Entrepreneurship and SME Development**

OECD organised an international conference for SME competitiveness in June 2000 in Bologna, Italy, in order to determine strategies and policies for SME development. This OECD Ministerial Conference on SMEs was organised by the Italian Government on "Enhancing the Competitiveness of SMEs in the Global Economy: Strategies and Policies". The Bologna Charter on SME Policies was adopted on 15 June 2000.

The Bologna Conference marked the beginning of a long-term process: The OECD Bologna Process. The Bologna Process has an objective to foster entrepreneurship and SME

competitiveness, and to provide guidance to governments to help entrepreneurs and SMEs worldwide. SMEs and entrepreneurship contribute to employment, innovation and overall economy, and therefore, the Bologna Proces considers entrepreneurship as a driver for growth performance.

Moreover, the Bologna Ministerial Conference focuses on SME issues and needs. The Bologna Charter is a high level international forum for SME policy makers to discuss and better understand issues and policies related to SMEs and to exchange experiences and best practices. The main policy and strategy in the Bologna is fostering entrepreneurship. Second policy is to strengthen the cooperation between international organizations and institutions in the area of SMEs and entrepreneurship.

The Bologna Process urges governments to facilitate access to innovation, technology, financing and services. Because the Bologna Process acknowledges that SME competitiveness increases through developing a better regulatory environment; promoting entrepreneurship, innovation and growth; education and human resource management policies; effective access to financial services; and an environment that supports the development and diffusion of new technologies for and by SMEs.

Therefore, OECD recommends to enhance the favourable framework conditions for entrepreneurship and for the development of SMEs: Those policies to enhance business conditions are investment in entrepreneurship education and lifelong learning, access to technology, reducing and simplifying administrative regulation, and facilitating access to financing.

The major SME Policy decided in the Bologna is to promote entrepreneurship and is to facilitate firm start-up and expansion (Estime, 2001). Therefore, OECD develops incentive policies for SMEs by simplifying heavy bureaucracy procedure, and by providing a business environment for entrepreneurship and enterprise development.

OECD 2nd meeting in Istanbul, Turkey, adds second dimension to the Bologna Process: innovation, i.e., innovative SMEs.

The Istanbul Conference was held on June 3-5, 2004, and has two themes: fostering entrepreneurship and innovation in SMEs. The theme of the Istanbul Conference is "Promoting Entrepreneurship and Innovative SMEs in a Global Economy". In Istanbul Conference, Ministers adopted the Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs.

The OECD Global Conference on Enhancing the Role of SMEs in Global Value Chains was held in Tokyo on 31 May-1 June 2007. The conference drafted the Tokyo Action Statement for enhancing the role of SMEs in global value chains. Moreover, in the Bologna Conference in 2000, Italy proposed to develop international network among SMEs: INSME (International Network for SMEs). The feasibility study for INSME was completed on November 2002.

INSME stimulates SMEs innovation processes through networks, and develops partnerships for innovation between private and public sectors, and promotes cooperation and flows of information and investment. In the Bologna Process, second meeting of the INSME Steering Group was held in Rome on 15 October 2001.

### **European Charter for Small Enterprises: Linking Innovation and Entrepreneurship with SME Business**

European Charter for Small Enterprises (the Charter) was initially developed in June 19-20th, 2000 at the Feira Summit of European Council. In order to achieve Lisbon objective of knowledge-based economy, the EU developed the European Charter for Small Enterprises. The Charter accepts the “think small first” principle: SMEs are essential for the European economy and competitiveness. The European Charter for Small Enterprises is a core document of the European SME policy. Therefore, the Charter is the EU’s first main programme for SME support and development.

The Charter strengthens the Lisbon objectives, and SMEs draw special attention in the EU policies. The EU recognises that “SMEs confront with market imperfections and have difficulties to obtain capital or credit. Their restricted resources reduce access to new technologies or innovation. Therefore, the EU priority is to support SMEs for economic growth, job creation and economic and social cohesion”.

The Charter acknowledges that small enterprises must be considered as a main driver for innovation, employment and social and local integration in Europe. Thus, the Charter focuses on developing SMEs businesses in order to achieve the objectives of Lisbon Strategy.

Therefore, according to the Charter, member states facilitate access of SMEs to research and technologies, and reduce administrative burden and procedures for SMEs. Therefore, the EU has a program entitled “Better Regulation for SMEs” that reduces bureaucracy, and reduces the administrative burden by 25% by 2012.

The Charter encourages the EU and the member states in those ten key areas to develop effective business environment for SMEs:

1. Education and training for entrepreneurship
2. Cheaper and faster start-up
3. Better legislation and regulation
4. Availability of skills (The Charter encourages SMEs for lifelong training to improve employee learning and skills.)
5. Improving online access
6. Getting more out of the Single Market
7. Taxation and financial matters

8. Strengthening the technological capacity of small enterprises
9. Making use of successful e-business models
10. Developing stronger, more effective representation of small enterprises' interests at Union and national level.

The European Commission prepares annual reports on the Charter's implementation in the member and the candidate states. The Fifth Report in February 2005 specifies that the

Charter increases its influence within the EU, and reinforces the SME dimension in the EU policies.

Within the new Lisbon Cycle of 2008-2010, the EU presented a document entitled Small Business Act for Europe (SBA) in July 2008. Main objectives of the Act are: simplifying the conditions for entrepreneurship for SMEs, simplifying the access of SMEs to the EU internal market and markets of third countries, and simplifying the access of SMEs to capital, innovations and eco-innovations.

## Discussion

Lisbon Strategy process is considered unsuccessful for 2010 targets by the EU: 3% R&D investment and 70% employment rate. In addition, the Charter has an objective to reduce bureaucracy and administrative burden for SMEs by 25% by 2012.

There may be three causalities for Lisbon Strategy to become unsuccessful.

Firstly, R&D, innovation and new product development is the US competence. Europe is historically known as science, technology and new products. Supporting science is also in line with the objective of the Lisbon Strategy: becoming knowledge-based society. Therefore, the EU is to promote basic science to become competitive. Because science and technology reinforce R&D and new products.

Science comes before R&D: Science produces knowledge, and R&D uses this knowledge for innovation. Therefore, science, knowledge, R&D and new products link is necessary for Lisbon Strategy to become successful.

Secondly, SMEs do not have capable scale of economies for R&D operations inside. Therefore, research centers enable SMEs to act R&D and innovation.

Thirdly, OECD Bologna Declaration in 2000 aims to encourage entrepreneurial spirit and culture in Europe. They consider, EU is behind the US in entrepreneurial activity. However, EU tends more to improve entrepreneurship in Europe than innovation; therefore, first priority was given to entrepreneurship. Entrepreneurship remarked higher ranks in the EU lists than innovation. Therefore, the target of Bologna Declaration, i.e., entrepreneurship, should be offset by the target of Lisbon Strategy, i.e., innovation.

From Feira European Charter of Small Enterprises in 2000 to the Small Business Act in 2008 (SBA), the process is called as “Think Small First”. The EU considers SMEs as the central role in EU economy. Therefore, the SBA aims to improve entrepreneurship, business environment, and innovation for SMEs. The SBA links entrepreneurship and innovation with SMEs. Therefore, the SBA attaches the Lisbon Strategy and the Bologna Process with SMEs.

In conclusion, EU funds and support services for SMEs are widely dispersed among EU organizations. The funds and services should be narrowed to specific. For example, in the US, SME support and services can be easily grouped for specific purposes. In addition, Japanese model of support and services can become a model for the EU SMEs. Therefore, EU funds and support services should be restructured, and institutions that provide those funds and services require reorganization.

## Biography

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## TQM AWARDS: WHICH ARE ACQUAINTED?

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### Abstract

This study investigates TQM Award models to determine the quality standards for firms to achieve total quality management. TQM Awards explored are Malcolm Baldrige Quality Award, the USA, European Quality Award (EFQM), the Europe, Deming Prize, Japan, and ISO 9000, International Organization for Standardization. Major focus in TQM Awards for firms are: the Malcolm Baldrige desires to achieve performance excellence, the EFQM targets to provide of business excellence, Deming Prize wants to achieve organizational quality, and ISO 9000 wants to set up quality management system for firms. In conclusion, this study recommends firms to apply quality criterias of Deming Prize and ISO 9000. Because both Awards set up and provide firms of organization of total quality management (e.g., provide of quality assurance, continuous improvement, organization, maintenance, statistical process control, relationship with suppliers). The Malcolm Baldrige and EFQM use management practices to achieve desired business results (e.g., those management practices are leadership, strategy, resources, processes and human resources).

**Keywords:** TQM Awards, Malcolm Baldrige Quality Award, European Quality Award, Deming Prize, ISO 9000

### Introduction

This study investigates TQM Award models to determine “which are acquainted” for competing firms. Because Total Quality Management (TQM) changed “made in Japan” image (Perincek et al., 2008). Because TQM represents organizational transformation process through its components: systems, processes, human resources and management. Therefore, there are three essentials in TQM: customers, employees and suppliers.

Moreover, TQM is associated with organizational processes, statistical quality control, employee involvement and management system. Quality of products and services depends on quality of organizational processes. In addition, management system of TQM set up internal relationship among TQM actors: suppliers, processes, human resources and customers.

### TQM Awards:

TQM Awards provide quality standards for organizations to assess organizational performance. TQM Awards worldwide are (Kostak, 2009):

- Deming Prize (1951), Japan
- Malcolm Baldrige National Quality Award (1987), the USA
- European Quality Award (1992), the Europe
- ISO 9000 Series (1987), International Organization for Standardization

TQM Awards represent new managerial and organizational methods for firms. The oldest and the most popular award is Japanese Deming Award. The USA has Malcolm Baldrige Award, and the Europe has European Quality Award. Turkey started quality award nomination in 1993 to increase quality awareness. TUSIAD-Kalder Award adopts European Foundation for Quality Management Excellence Model (EFQM) for award nomination.

Major focus at TQM Awards for firms are : Malcolm Baldrige Quality Award desires to achieve performance excellence for firms; Deming Prize wants to achieve organizational quality; ISO 9000 wants to set up quality management system in organizations, and EFQM targets to obtain business excellence.

Baldrige Award was developed to promote quality awareness and identify the requirements for quality excellence (Vokurka et al., 2000). Baldrige Award is a guide for companies to form an integrated framework for performance excellence. The criterias are called as management practices to assess an applicant's performance, and are divided into seven categories: leadership, strategic planning, customer and market focus, information and analysis, human resource focus, process management and business results. The model presents an integrated framework for interrelationship between those seven criterias. Organizations use these criterias to link their structure, operations, strategy and results. Those criterias are designed to achieve two goals: delivering improved value to customers, and improving organization's overall performance (Cazzell, Ulmer, 2009).

Philosophy of this model is to achieve performance excellence in management practices to increase organizational performance.

Baldrige Award aims to increase organizational performance and business results by achieving performance excellence in seven management practices. Because American firms question that implementation of TQM has impact on business results. Therefore, Baldrige model is oriented to performance excellence, organizational performance and business results. Therefore, outcomes of five manufacturing Baldrige Award winners demonstrate such business results: Increased market share and revenue, improved sales, higher levels of customer satisfaction, elevated employee productivity, and increased return on assets (Cazzell, Ulmer, 2009).

Baldrige Award gives more weight to results (Vokurka et al., 2000). Because award winners realized that TQM didn't guarantee increased profits. Today, business results, customer and market focus account for more than 50% of Baldrige Award model weighting (Vokurka et al.,

2000). However, at the beginning, Baldrige Award didn't allocate substantial weight to business results.

EFQM Model includes nine enablers and results criterias. 5 are enablers criterias and 4 are results criterias. Due to each criteria has sub-criterias EFQM has total 32 criterias. The quality improvement enablers include those categories: leadership, human resource management, policy and strategy, resources and processes. Effective implementation of these enablers impacts the results: employee satisfaction, customer satisfaction, impact on society and business results (Vokurka et al., 2000).

EFQM set up a model for enablers-results relationship. Organizations use of enablers (e.g., leaders, employees, resources, processes) to obtain results (i.e., business results related to employees, customers, society and performance). EFQM considers organizational processes as a link between enablers and results. Thus, EFQM is not only interested with quality but also interested with developing effective management system (Emanet, 2007).

EFQM has outcome focus; therefore, the model desires to achieve employee, customer and performance-related outcomes.

EFQM targets "business excellence" in the process of transformation from enablers to results. EFQM model focuses on the transformation process, while the Baldrige focuses on interrelated management practices.

Both Baldrige and EFQM are business results-focused models. But EFQM recognizes priority to enablers to achieve business results, while the Baldrige has management practices focus to achieve business results.

Deming Prize focuses on organizational quality management (Vokurka et al, 2000). Therefore, Deming Prize has ten categories. All have an equal weight in award nomination: Policies, organization, information, standardization, human resources, quality assurance, maintenance, improvement, effects and future plans. Those criterias are designed to achieve quality assurance in an organization.

The philosophy of Deming is the key feature to the Deming Prize: They are continuous improvement and statistical process control. Deming considers that zero defect can be achieved through process control (Bumin, Erkutlu, 2002).

In Deming Prize organizational processes are more important than business results. In addition, Deming Prize nomination considers applying TQM practices in organizations such as quality circle, PDAC cycle. Because TQM practices are key to continuous quality improvement.

ISO 9000 series was presented in 1987 as quality assurance standards, and was revised twice in 1994 and in 2000 (Bekaroglu, 2005). To develop ISO 9000: 2000 quality management

system, ISO obtained organizational feedbacks from 1120 institutions worldwide (Ilkay, Varinli, 2005).

In 1987, ISO 9000 was a quality assurance system but this system is turned to quality management system in ISO 9000: 2000. Quality assurance is related to process management but quality management system is related to employees, customers, suppliers and processes.

ISO 9000: 2000 Quality Management System adopts process management approach to develop and practice effective quality management system in order to increase customer satisfaction. Process management includes identifying organizational processes, relations among processes, management of organizational processes, and set-up process system.

“Management” word in quality management system refers to and covers employees, customers, suppliers, system and processes.

ISO 9000: 2000 has eight quality management principles: Customer focus, leadership, Employees, Process approach, System approach, Continuous improvement, Rational decision making and relations with suppliers. Therefore, quality management system of ISO 9000: 2000 includes customer requirements, management responsibility, resource management, statistical quality control, process management, manufacturing product, and customer satisfaction. For example, process management in ISO 9001 covers whole production process from product development and design, manufacturing, start-up of product to customer services (Ozcan, 2002).

Process approach is required for customer satisfaction and cost reduction because quality of products and services depends on quality of processes. Therefore, organizations should practice process control instead of end control of products.

ISO 9000 quality standards should be the first phase for firms to achieve total quality management (Duran, 2007). For example, American firms applied both ISO 9000 and Baldrige Award quality standards together to achieve quality in organizations so that they can become quality competitors against Japanese firms (Duran, 2007).

### **Discussion: Which are Acquainted?**

This study recommends Deming Prize and ISO 9000 quality standards for competing firms. Because ISO 9000 and Deming Prize set up and provide of organization of Total Quality Management for firms (e.g., provide of quality assurance, continuous improvement, organization, maintenance, statistical process control, relationship with suppliers). The Baldrige and EFQM use management practices to achieve desired business results (e.g., those management practices are leadership, strategy, resources, processes and human resources).

In addition, Deming Prize increases organizational quality inside the firms. On the other hand, ISO 9000 provides of a quality management system that enable organizations to govern and implement TQM inside organizations.

Deming Prize and ISO 9000 emphasize quality assurance. Quality assurance, continuous improvement, and statistical process control lead to customer satisfaction. Deming Prize develops an organizational environment for quality, and develops an organizational context to practice TQM technics such as employee involvement, customer satisfaction, continuous improvement.

ISO 9000: 2000 is widely accepted by customers worldwide. Therefore, for example, many companies in the USA obtain ISO 9000: 2000 certificate. Moreover, ISO 9000: 2000 quality system includes principles about suppliers, employees, processes and customers that they are key to achieve TQM.

On the other hand, firms can apply all award models' quality standards in step-by-step approach. For example, ISO 9000 sets up quality management system. Therefore, ISO 9000 should be the first phase for organizations to apply among other TQM Awards. Then, firms can apply Deming Prize criterias. Because Deming Prize develops organizational quality for organizations. ISO 9000 sets up process and quality system, and Deming Prize improve this process and quality system. Firms, then, can apply Baldrige model to achieve business results and organizational performance. The Baldrige model aims to increase the impact of management practices on organizational performance and results. Therefore, Baldrige criterias increase the impact of TQM on business results. Finally, firm can practice EFQM Excellence Model. EFQM aims to achieve internal and external customer satisfaction, and business results through business excellence.

TQM Award nomination should be open to international competition. For example, firms with headquarters in the USA can only apply for Baldrige Award nomination. On the other hand, Deming Prize is open to international competition.

In addition, the Award Committees should become an advisor for firms that want to apply for award nomination. For example, JUSE (i.e., Union of Japanese Scientist and Engineers) plays an advisory role for applicants for Deming Prize.

To conclude, TQM Awards (Malcolm Baldrige, Deming, and EFQM) contain an award nomination for SMEs. SME nomination is important because spare parts are crucial to produce quality products for major company.

## Biography

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## MARKETING MANAGEMENT PRACTICES AT SKI CENTERS: THE CASE OF GREECE

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### Abstract

The purpose of this study is to discover the extent to which the marketing practices of Greek ski centers take under consideration visitors' preferences and the interests of other stakeholders in order to improve their tourism product. Existing ski centers and destinations are vital for the ongoing development of winter tourism in Greece.

The study is exploratory in nature and data was collected by carrying out semi-structured in-depth interviews with key managers in 14 ski centers in Greece.

The results revealed that the majority of ski centers do not have a marketing department and only a few receive consultation from consultants. Additionally many ski centers do not use specific planning or strategic tools, and about 20% of their directors are not in a position to identify and measure customer segments. Individuals who pursue recreation, skiers, and various associations are ski centers' most frequent customers. Finally, respondents have defined customer satisfaction to be of a high level in those ski centers that conduct customer research.

This is a limited exploratory study restricted to one country. However, the Greek economy is heavily based on tourism, the latter contributing 15% to the nation's GDP, thus making the strong development of winter tourism a matter of relative importance. Suggestions are presented for future studies and especially for generalization of the findings.

Today's business environment requires the application of a robust, enterprise-wide plan at Greek ski centers and particular management practices should be investigated as possible causes of the inadequate advancement of the tourism product at Greek ski centers.

This study offers empirical findings from ski centers in Greece, where studies are limited. It also broadly creates the need for future research about this particular area and in areas with similar tourism characteristics in the Mediterranean.

**Keywords:** Marketing practices, Ski centers, winter tourism, Greece



## Introduction

Tourism comprises a major economic and development factor in Mediterranean countries. Even in periods of recession, the number of visits and the plentitude of lodgings remain at a high level (Grammelis, 2010; Siamelis and Zouka, 2009; Klapper, 2008). In 2007, 275 million foreign tourists visited to Mediterranean countries, e.g. 30 percent of global international tourism arrivals (UNEP, 2010). By 2025, the total of international and domestic tourism in the greater Mediterranean area is expected to rise to about 637 million visits, with 48.9 percent of these, taking place in non-coastal Mediterranean areas (MSCD, 2008).

Skiing activities appeared in the late 1960's in Greece, with the establishment and operation of the first ski-centers (Maniatis, 2008; Drakou et al., 2005). However, the ski industry in Greece is in the early stages of development and is basically concerned with domestic tourism (Boniface and Cooper, 2005), due to Greece popularity as a worldwide mass summer destination, (i.e., the popular islands). In addition, in the mountain areas (less developed tourist destinations) ski centers could be the vehicle for economic development and prosperity (Andronikidis et al., 2006), although tourism was not a priority in the development agenda of the local authorities as well as the central's government (Priporas and Kamenidou, 2003). In light of the fact that a limited number of studies have focused on Greek ski centers (Priporas et al., 2009) and especially into the marketing practices of ski centers, this area constitutes a desirable research topic.

The purpose of this study is to discover the extent to which the marketing practices of the ski centers take under consideration visitors' preferences and the interests of other stakeholders in order to improve their tourism product. More specifically the objectives are to identify:

- [1] The ski centers' visitors (e.g. skiers, associations, families, etc.) and the percentage that corresponds to each visitor's category.
- [2] The organization of marketing activities at ski centers (research, promotion, collaborations, pricing, HR management and procedures).
- [3] The interest of ski centers management in monitoring the degree of visitors' satisfaction.

The rest of the paper is organised as follows. In the next section we briefly review the literature on tourism product destinations' management at ski centers. Subsequently, we describe the research methodology and discuss our findings. Finally, we conclude our paper with a summary, a discussion of the limitations of our approach and some directions for future research.

## The administration of destinations' tourism product

Kotler et al., (1993) determine the analysis of tourism product as a four-level- approach procedure. In the case of ski-centers, at the first level of core tourism product it is the unique experience of skiing and in general winter sports that play a significant role. The second level consists of important services, such as customers' transportation and lifts, lodgings and

accommodation. Support services take place at the third level, e.g. retail trading and all kinds of shops. The traditional or modern image of the ski-destination stands at the fourth level of this analysis, due to the visitors impressions of the tourism-destination and facilities in general during their period of stay. For example, as Lovelock, comments “nobody wants to be at Disney World on a record-breaking day for ticket sales” (Pullman and Thomson, 2002).

Ski-destination tourism attracts not only the active visitors who participate in sports activities but also the passive visitors who observe various events, visit athletic museums and enjoy being at a wonderful place (Gibson, 2002; Pitts, 1999). A lack of necessary infrastructure facilities inhibiting the accommodation of tourists should be seriously taken under consideration, preferably aimed at increasing the visitors’ duration of stay, rather than trying to increase the number of visitors, which would actually be more difficult to get successfully done by management (Ritchie, 2005).

Similarly, the experience of being in a highly crowded ski-destination can possibly cause physical and psychological fatigue to the visitors waiting in long lines for the lifts, or at the restaurants waiting for the first available table, noise, etc. However, research being done in New Zealand has shown that not even 25 percent of the ski-event-organizers conduct sole strategic plans for each of the sports activities and events being organized at that country’s winter destinations (Higham and Ritchie, 2001). According to Pullman and Thompson (2002, p.26), ski-centers should be regarded as “service networks that offer multiple services and activities at one site. Service networks face more – complex capacity–management decisions than do services with a single service offering”. The complexity in tuning and organizing service networks is due to diachronical changes in visitors’ preferences, availability in time for activities and other services, physical constraints, and space limitations.

## **Research Methodology**

Taking into consideration the exploratory nature of the study and the limited number of studies on ski tourism in Greece, qualitative research is considered a necessity (Priporas, 2005). Qualitative research provides insights into, and understanding of, the problem, and quantitative research must be preceded by appropriate qualitative research whenever a new market research problem is being addressed (Malhotra, 2007). Also, qualitative research methods are well-suited to the characteristics and the nature of services (Gilmore and Carson, 1996).

For the purpose of this study, in depth interviews with 14 managers, who represent the management bodies in charge of the 14 ski centers, were used as a data collection tool. The experience of the selected interviewees in ski centers management- as well as their participation or influence in decision making processes have been regarded as important selection criteria for the current research.

For the in depth interviews, a simple semi-structured questionnaire was developed on the basis of the literature. The interviews were held at places and at times that were selected by the interviewees after a telephone call. The interview's duration ranged from between 46 and 67 minutes. Before each interview there was a briefing about the purpose of the research, the ways data were intended to be analyzed and the fact that all answers would be recorded with the conform opinion of the interviewees. Additionally, the managers had the possibility to get prepared and take a look at the thematic of the interview, through a leaflet which was distributed before the interviews.

The transcription interview form is comprised of three important thematic areas of discussion. The first one focuses on the operation characteristics of ski centers, the second is related to the administrative and management philosophy, and the third area contains marketing-related issues. The transcription form of the answers is based on a semi-structured questionnaire, meaning that acceptance or rejection of the proposition comes as a result of answering explanatory questions on behalf of the interviewees (Horton et al., 2004; Houtkoop-Steenstra, 1996). Interview as a method of research with the use of semi-structured questionnaire facilitates the extraction of conclusions for comparing and analyzing the answers. All answers are inserted in an SPSS package with coding taking place as a means of frequency analysis.

### **The research proposition**

Based on the literature, we carried on with the formulation of this research proposition regarding management practices at ski centers: Ski center's management take under consideration customers' preferences and the interests of other stakeholders in order to improve the product being offered. The research proposition contains characteristic elements of the three important thematic fields of tourism research, namely administration and strategy, marketing and marketing planning, and operations (Baloglu and Assante, 1999; Crawford-Welch and McCleary, 1992; Chon et al., 1989). Table 1 shows a correlation between the research proposition and the criteria of description and explanatory questions focus analysis.

<i>Ski center's management take under consideration customers' preferences and interests of other stakeholders to improve the product being offered.</i>		
<i>Description Criteria</i>	<i>References</i>	<i>Explanatory Questions</i>
<i>Visitor segments</i> <i>Target markets</i> <i>Marketing activities</i> <i>Visitor satisfaction</i>	<i>Boniface &amp; Cooper, (2005)</i> <i>Ritchie, (2005)</i> <i>Buhalis, (2000)</i> <i>Aolonitis &amp; Gounaris, (1999)</i> <i>Kotler et al., (1993)</i> <i>Deshparide et al., (1993)</i> <i>Getz, (1992)</i> <i>Ryan, (1991)</i> <i>Kohli &amp; Jaworski, (1990)</i> <i>Narver &amp; Slater, (1990)</i> <i>Haywood, (1986)</i> <i>Butler (1980)</i>	<i>How are ski-center's customers described (e.g. athletes, recreation visitors, tourism agents, educational institutions, families etc.)? What is the percentage that corresponds to each visitor's category identified?</i> <i>How are the marketing activities at ski centers (Research, Promotion, collaborations, pricing, HR management and procedures) organized?</i> <i>In what ways do ski center management track the degree of visitors' satisfaction? How do you evaluate the satisfaction of your customers?</i>

*Table 1. Relation between the research proposition and the criteria of description and focus analysis*

### **Sample profile**

There are 22 active ski centers open during the winter season in Greece (<http://www.gtp.gr/skicenters.asp>, 2009), meaning that they present intensive seasonal characteristics. The 14 ski centers that were selected to participate in the research sample, make up about 63.6 percent of the total number of existing facilities in Greece (see Figure 1) and they represent the traditional ski destinations in the country. Most of them (83.3 percent of the researched ski centers) are members of the Greek Ski Center Association (G.S.C.A.). The professional position of each manager, executive is presented on Table 2.

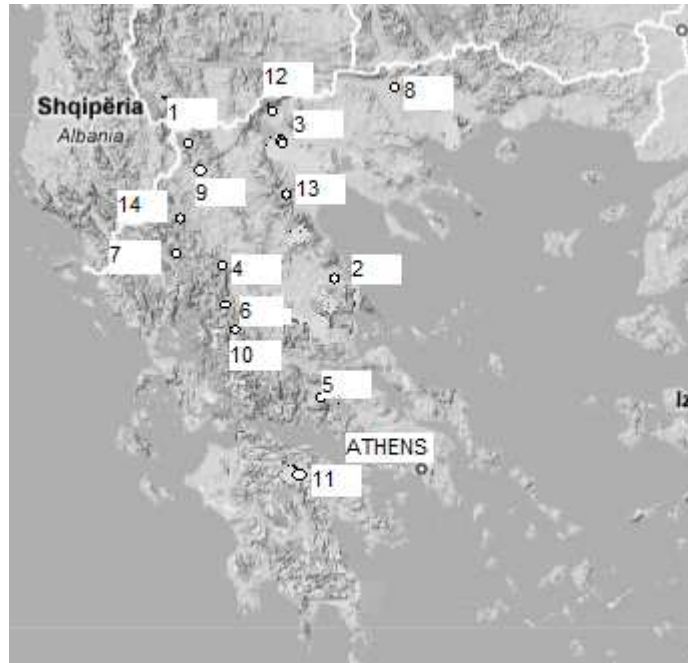


Figure 1. Map of Greece: territorial distribution of the ski centers of the research sample, where the interviews took place. Note: Map was processed after taken by Google (<http://maps.google.com/>, 2009). Number indicators correspond to the ski centers of the sample; where 1) Pisoderi Florina, 2) Pilio Magnesia, 3) Tria Pente Pigadia Imathia, 4) Pertouli Trikala, 5) Parnassos Viotia, 6) Karamanoli Karditsa, 7) Metsovo Ioannina, 8) Lailia Serres, 9) Vitsi Kastoria, 10) Karpenissi/Velouhi Evrytania, 11) Kalavryta (Achaïas) Pelloponissou, 12) Kaimaktsalan Pella, 13) Elatochori Pieria, 14) Vasilitsa Grevena

A/A	Ski Resort or Center	Professional Stand of the administration officer and institutional management body of ski center
1	Pisoderi Florina	1) Ski center director 2) Prefecture of Florina
2	Pilio Magnesia	1) Ski resort director and Ski center equipment manager 2) Development Company of Magnesia
3	Tria Pente Pigadia Imathia	1) Ski resort director 2) Municipality of Naoussa and Municipal Enterprise for the Tourist Dev. of Naoussa
4	Pertouli Trikala	1) General Manager of ski center-Mechanical Engineer 2) Development Company of Prefecture of Trikala (ANENT S.A.) and Municipality of Aithikon
5	Parnassos Viotia	1) Financial and Procurement Manager of ski center 2) Hellenic Tourism Development Co
6	Karamanoli Karditsa	1) Vice-president of the alpine and ski club of Karditsa 2) Alpine and ski club of Karditsa
7	Metsovo Ioannina	1) Member of the Board of Directors in Municipal Enterprise of Metsovo 2) Municipal Developmental Enterprise of Metsovo
8	Lailias Serres	1) Manager of the ski center and secretary of the Hellenic Alpine Club (H.A.C.) of Serres 2) The Board of Directors of H.A.C. of Serres and the General Secretariat for Athletics of Hellenic Republic
9	Vitsi Kastoria	1) President of Ski – Alpine Club of Kastoria 2) Ski – Alpine Club of Kastoria
10	Karpenisi Evrytania	1) Deputy C.E.O. of Development Company of Prefecture of Evrytania 2) The Board of Prefecture of Evrytania
11	Kalavryta Peloponnesus	1) Director of the Municipal Enterprise of Kalavryta 2) Municipal Enterprise, Klaoudatos, Everest
12	Kaimaktsalan Pella	1) Director of ski center 2) Prefecture of Pella and Board of Directors of Development Company EUROAP S.A.
13	Elatochori Pieria	1) General Director of ski center 2) Ski Centre Elatochori Pierias S.A.
14	Vasilitsa Grevena	1) Ex-president of the board of directors of Vasilitsa Ski center (civil servant of Prefecture of Grevena, Department for Culture and People's Heritage). 2) General Secretariat for Athletics of Hellenic Republic

Table 2. Ski centers and corresponding administration officers that participated in the semi-structured interviews

## Findings

According to the perceptions of ski centers managers, all efforts result in the attraction of specific customer segments. For the development of marketing programs, there are actions based on the good allocation of activities and available resources. In some ski centers there is evaluation of the degree of customer satisfaction in planning future marketing activities. The

main customer segments identified at Greek ski centers, the appreciated degree of customer satisfaction, as well as resource allocation are presented next. The resource allocation is performed per marketing mix element, in order to develop and accomplish the marketing plans. Table 3 presents an overall picture of the current findings.

### **Responsible for Marketing Actions**

Interviewees were asked to specify those entities, e.g. individuals, companies or groups that are responsible for the formulation and support of marketing plans. The vast majority of ski centers are not supported by a responsible unit for the management and administration of marketing activities. Almost 36 percent of managers did not provide any answer about this issue, meaning that in the corresponding ski centers nobody is formally in charge of marketing management. Almost one third of ski centers, that took part in our research, entrust their marketing activities to business or marketing consultants. At three out of 14 ski centers, the boards of directors are responsible for marketing decisions, while just a few of them execute their planned marketing activities through individual investors, sports unions, development offices or other teams of people, who specialise in marketing planning.

The following statements are very characteristic:

“When the time comes to decide about implementing advertising campaigns and deciding the prices of our services, we prefer to ask for help from professionals and offices that carry the necessary experience so that every euro is well spent” (Ski center 1, director).

“The center is actually run by our alpine club. So, every important decision that affects operations, relations and promotions, except for financial indices and prices, is taken by the board of directors and members exclusively” (Ski center 9, president)

### **Marketing Actions: Destination, product, services and infrastructure**

At this point in the survey, managers were asked to indicate those who provide the service of upgrading the destinations and the ski centers as tourism products. Concerning tourism product planning, it is a combination of services and environmental material elements. Planning, both of services and that of material elements and management of resources and products elements, does not exist in Greek ski centers.

Another observation, arising from managers' answers, is that in most ski centers there is no qualified unit responsible for executing marketing plans. Almost 57 percent of the ski centers—managers that participated in the survey have not indicated the medium through which destination marketing is implemented. At ski centers where a clear answer has been given, destination marketing is mainly assigned to business consultants, development offices and the board of directors and in a few cases is based on cooperation with other European ski centers or other free lancers in the private sector.

**Marketing Actions: Pricing**

Due to the increased importance of pricing, being the only revenue generating element of the marketing mix, managers were specifically asked about how they make decisions about it. According to their answers, the planning process of pricing policy and distribution activities are mainly based on collaborations with a) business consultants and b) accounting offices.

Some of the researched ski centers produce their pricing policies based on decisions by the board of directors and at a few of them various freelance professionals and advertising agencies deal with the pricing procedure. However, at 35 percent of the ski centers pricing has not attracted the attention it deserves.

**Marketing Actions: Place: Distribution**

Another important parameter of marketing is the placement of ski centers' as tourism destinations. Therefore, it is of utmost importance for the managers to select the right channels of distribution.

Almost 43 percent of ski centers do not activate a distribution planning procedure, which is a result of the weakness of specific managers in dealing with this issue. Tourism agencies are the most frequent preference of ski centers in order to distribute their services to prospective visitors and in a few cases the boards of directors get involved in the distribution process.

**Marketing Actions: Promotion**

Promotional activities are necessary for ski centers, because they try to attract customers from great distances who mostly live in urban areas. The selection of the right promotion medium is crucial for the success of promotional activities.

Promotion, as part of the marketing mix procedure, is controlled in most of the cases by a) the board of directors, and b) independent consultants or consulting firms. Advertising firms make up 15 percent of the answers and the use of word-of-mouth communication has been mentioned just once. Again, a considerable percentage of the sample has not provided the research team with information about the entity that has been assigned the promotional activities, although the interviewers insisted on it.

**Marketing Actions: People & staff**

The execution of the selected marketing actions is probably as important as the planning procedure. A successful execution depends on the knowledge (know-how) and dedication of the marketing partner. In general, human resources planning for executing marketing actions does not appear to be an active marketing procedure. A ski center has decided to cooperate with other EU ski centers and at three of them the board of directors has undertaken this task!

**Market segments**

Another crucial part of our analysis was to reveal all different customer segments that actually support the rates of visits to Greek ski centers. Therefore, the percentages from all ski



centers and for every active customer segment were added up and the results are as follows and also presented in Table 3. The active segment “Individuals for recreation” is ranked first (score 349), followed by category “Skiers” (score 249), “Associations” (score 154), “Tour offices” (score 81) and the last is the active segment “Institutions” (score 63). Some representatives of specific ski centers did not provided the interviewers with any active customer segments, apparently due to their lack of knowledge about the profile of their visitors.

### Customer satisfaction

Finally, concerning the level of customer satisfaction, it appears that in most of the ski centers it is at a “very high level” (e.g., ski centers 1, 3, 5, 11 and 13) or “high”, (e.g., ski centers 7, 9, 10 and 12). Also, a significant number of ski centers do not have any data, due to lack of relevant customer satisfaction research initiatives, inevitably resulting in difficulties in evaluating the level of visitors’ satisfaction.

The following extracts demonstrated this view:

“According to qualitative research in 2008, almost 75% of our visitors were more than satisfied with our ski center’s services and amenities” (Ski center 3, director).

“Every year we randomly select a number of visitors which corresponds to about 5% of our arrivals and ask them, with the use of a simple questionnaire, to evaluate our services, report any complaints, and tell us about their overall feeling and experience of their stay at our ski center. On a steady basis, more than 7 out of 10 visitors declare to be highly satisfied” (Ski center 12, director).

A different response was given by another manager.

“We have not conducted any kind of research in the past to check the levels of satisfaction of our visitors, but in general we have not encountered any unsolvable problems or complaints” (Ski center 8, manager).

	<i>Ski centers</i>	<i>Description based on perception analysis</i>
1	PF	<p><i>Customer segments (rates are based on perceptions):</i></p> <p><i>a. associations: 20%</i></p> <p><i>b. individuals for recreation: 20%</i></p> <p><i>c. skiers: 10%, travel agencies: 10%, institutions (e.g. schools, universities): 40%.</i></p> <p><i>Marketing actions (MA):</i></p> <p><i>a. responsible for MA: research team of the ski center, advertising and pricing team, and development offices &amp; consultants</i></p> <p><i>b. destination, product, services and infrastructure: development offices &amp; consultants</i></p> <p><i>c. pricing: development offices &amp; consultants</i></p> <p><i>d. place, distribution: development offices &amp; consultants</i></p> <p><i>e. promotion: development offices &amp; consultants</i></p> <p><i>f. people-staff: development offices &amp; consultants</i></p>

		<i>Customer satisfaction (based on research): Very High</i>
2	PM	<p><i>Customer segments (rates are based on perceptions):</i></p> <ul style="list-style-type: none"> <li><i>a. associations: NA</i></li> <li><i>b. individuals recreation: NA</i></li> <li><i>c. skiers: NA, travel agencies: NA, institutions (e.g. schools, universities): NA</i></li> </ul> <p><i>Marketing actions (MA):</i></p> <ul style="list-style-type: none"> <li><i>a. responsible for MA: NA</i></li> <li><i>b. destination, product, services and infrastructure: NA</i></li> <li><i>c. pricing: NA</i></li> <li><i>d. place, distribution: NA</i></li> <li><i>e. promotion: NA</i></li> <li><i>f. people-staff: NA</i></li> </ul> <p><i>Customer satisfaction: NA</i></p>
3	PN	<p><i>Customer segments (rates are based on perceptions):</i></p> <ul style="list-style-type: none"> <li><i>a. associations: 3%</i></li> <li><i>b. individuals for recreation: 90%</i></li> <li><i>c. skiers: 3%, travel agencies: 3%, institutions (e.g. schools, universities): 1%.</i></li> </ul> <p><i>Marketing actions (MA):</i></p> <ul style="list-style-type: none"> <li><i>a. responsible for MA: NA</i></li> <li><i>b. destination, product, services and infrastructure: NA</i></li> <li><i>c. pricing: NA</i></li> <li><i>d. place, distribution: NA</i></li> <li><i>e. promotion: NA</i></li> <li><i>f. people-staff: NA</i></li> </ul> <p><i>Customer satisfaction (based on research): Very High</i></p>
4	PT	<p><i>Customer segments (rates are based on perceptions):</i></p> <ul style="list-style-type: none"> <li><i>a. associations: 10%</i></li> <li><i>b. individuals for recreation: 80%</i></li> <li><i>c. skiers: 10%</i></li> </ul> <p><i>Marketing actions (MA):</i></p> <ul style="list-style-type: none"> <li><i>a. responsible for MA: consultant from external marketing office</i></li> <li><i>b. destination, product, services and infrastructure: consultants</i></li> <li><i>c. pricing: consultants</i></li> <li><i>d. place, distribution: consultants</i></li> <li><i>e. promotion: consultants</i></li> <li><i>f. people-staff: consultants</i></li> </ul> <p><i>Customer satisfaction: NA</i></p>
5	PA	<p><i>Customer segments (rates are based on perceptions):</i></p> <ul style="list-style-type: none"> <li><i>a. associations: 13%</i></li> <li><i>b. individuals for recreation: 12%</i></li> <li><i>c. skiers: 50%, travel agencies: 13%, institutions (e.g. schools, universities): 12%</i></li> </ul> <p><i>Marketing actions (MA):</i></p> <ul style="list-style-type: none"> <li><i>a. responsible for MA: NA</i></li> <li><i>b. destination, product, services and infrastructure: NA</i></li> <li><i>c. pricing: NA</i></li> <li><i>d. place, distribution: NA</i></li> <li><i>e. promotion: NA</i></li> </ul>

		<p><i>f. people-staff: NA</i></p> <p><i>Customer satisfaction (based on research): Very High</i></p>
6	KK	<p><i>Customer segments (rates are based on perceptions):</i></p> <p><i>a. associations: 95%</i></p> <p><i>b. individuals for recreation: 3%</i></p> <p><i>c. skiers: 2%</i></p> <p><i>Marketing actions; MA:</i></p> <p><i>a. responsible for MA: consultant from external marketing office</i></p> <p><i>b. destination, product, services and infrastructure: NA</i></p> <p><i>c. pricing: NA</i></p> <p><i>d. place, distribution: NA</i></p> <p><i>e. promotion: development offices</i></p> <p><i>f. people-staff: NA</i></p> <p><i>Customer satisfaction: NA</i></p>
7	MI	<p><i>Customer segments (rates are based on perceptions):</i></p> <p><i>a. associations:-</i></p> <p><i>b. individuals for recreation: 70%</i></p> <p><i>c. skiers: 10%, travel agencies: 20%</i></p> <p><i>Marketing actions(MA):</i></p> <p><i>a. responsible for MA : individual investors</i></p> <p><i>b. destination, product, services and infrastructure: development offices + consultants + free professionals from the private sector</i></p> <p><i>c. pricing: consultants +advertising offices + free local professionals</i></p> <p><i>d. place, distribution: local free professionals + travel agencies,</i></p> <p><i>e. promotion: advertising agencies + travel agencies,</i></p> <p><i>f. people-staff: our self “in-house”,</i></p> <p><i>Customer satisfaction (based on research): High</i></p>
8	LS	<p><i>Customer segments (rates are based on perceptions):</i></p> <p><i>a. associations: 5%</i></p> <p><i>b. individuals for recreation: 60%</i></p> <p><i>c. skiers: 5%, travel agencies: 20%, institutions (e.g. schools, universities): 10%.</i></p> <p><i>Marketing actions (MA):</i></p> <p><i>a. responsible for MA: NA</i></p> <p><i>b. destination, product, services and infrastructure: board of directors</i></p> <p><i>c. pricing: board of directors</i></p> <p><i>d. place, distribution: board of directors</i></p> <p><i>e. promotion: board of directors</i></p> <p><i>f. people-staff: board of directors</i></p> <p><i>Customer satisfaction: No Research</i></p>
9	VK	<p><i>Customer segments (rates are based on perceptions):</i></p> <p><i>a. associations: 10%</i></p> <p><i>b. individuals for recreation: 50%</i></p> <p><i>c. skiers: 40%</i></p> <p><i>Marketing actions (MA):</i></p> <p><i>a. responsible for MA: sport association members</i></p> <p><i>b. destination, product, services and infrastructure: board of directors</i></p> <p><i>c. pricing: accountant office + board of directors</i></p>

		<p>d. place, distribution: board of directors</p> <p>e. promotion: board of directors</p> <p>f. people-staff: board of directors</p> <p>Customer satisfaction (based on research): High</p>
10	KE	<p>Customer segments (rates are based on perceptions):</p> <p>a. associations: -</p> <p>b. individuals for recreation: -</p> <p>c. skiers: -, travel agencies: -, institutions (e.g. schools, universities): -</p> <p>Marketing actions (MA):</p> <p>a. responsible for MA: board of directors</p> <p>b. destination, product, services and infrastructure: NA</p> <p>c. pricing: NA</p> <p>d. place, distribution: NA</p> <p>e. promotion: NA</p> <p>f. people-staff: NA</p> <p>Customer satisfaction (based on research): High</p>
11	KP	<p>Customer segments (rates are based on perceptions):</p> <p>a. associations: 25%</p> <p>b. individuals for recreation: 20%</p> <p>c. skiers: 40%, travel agencies: 15%</p> <p>Marketing actions (MA):</p> <p>a. responsible for MA: individual investors</p> <p>b. destination, product, services and infrastructure: staff form other EU ski centers</p> <p>c. pricing: accountant office</p> <p>d. place, distribution: consultants</p> <p>e. promotion: board of directors</p> <p>f. people-staff: other EU ski center partners</p> <p>Customer satisfaction (based on research): Very High</p>
12	KED	<p>Customer segments (rates are based on perceptions):</p> <p>a. associations: -</p> <p>b. individuals for recreation: -</p> <p>c. skiers: -, travel agencies: -, institutions (e.g. schools, universities): -</p> <p>Marketing actions (MA):</p> <p>a. responsible for MA: consultant from external marketing office</p> <p>b. destination, product, services and infrastructure: NA</p> <p>c. pricing: consultants</p> <p>d. place, distribution: travel agencies</p> <p>e. promotion: our self experience through personal contact with customers</p> <p>f. people-staff: board of directors</p> <p>Customer satisfaction (based on research): High</p>
13	EP	<p>Customer segments (rates are based on perceptions):</p> <p>a. associations: -</p> <p>b. individuals for recreation: 26%</p> <p>c. skiers: 74%</p> <p>Marketing actions (MA):</p> <p>a. responsible for MA: board of directors</p> <p>b. destination, product, services and infrastructure: NA</p>

		<i>c. pricing: accountant office</i> <i>d. place, distribution: travel agencies</i> <i>e. promotion: advertising agencies</i> <i>f. people-staff: NA</i> <i>Customer satisfaction (based on research): Very High</i>
14	VKO	<i>Customer segments (rates are based on perceptions):</i> <i>a. associations: 80%</i> <i>b. individuals for recreation: 18%</i> <i>c. skiers: 2%</i> <i>Marketing actions (MA):</i> <i>a. responsible for MA: board of directors,</i> <i>b. destination, product, services and infrastructure: NA</i> <i>c. pricing: NA</i> <i>d. place, distribution: NA</i> <i>e. promotion: NA</i> <i>f. people-staff: NA</i> <i>Customer satisfaction: No Research</i>

*Table 3. Description of customer segments, the perceived degree of customer satisfaction and the management of various corporate actions, concerning the division of labor at the elements of the marketing mix*

*Note: Where PF= Pisoderi Florinas, PM= Piliou Magnisias, PN= 3-5 Pigadia Imathias, PT= Pertouli Trikalon, PA= Parnassos Viotias, KK= Karamanoli Karditsas, MI= Metsovou Ioanninon, LS= Lailias Serron, VK= Vitsi Kastorias, KE= Karpenisiou Euritania, KP= Kalavriton Peloponissou, KED= Kaimaktsalan Pellis, EP= Elatochoriou Pierias and VKO= Vasilitsas Grevenon. Where "NA" = No Answer.*

## Conclusions

Marketing activities seems to be a vital factor for survival and success in today's turbulent and highly competitive tourism industry. Tourism executives, in order to influence and motivate visitors to choose their tourism product, should provide a well designed action program consisting of a suitable mix of marketing activities (Hudson, 2008). The purpose of this study was to shed some light on issues concerning the marketing actions taking by Greek ski centers. The results revealed that the majority of ski centers do not have a marketing department and only few receive consultation from consultants. Additionally many ski centers do not use specific planning or strategic tools, and about 20 percent of their directors are not in a position to identify and measure customer segments. Individuals who pursue recreation, skiers and various associations are ski centers' most frequent customers. A Based on managers' perceptions, there is great room for the development of the active segments of organized groups of visitors, and that could happen only with the development of a more robust marketing culture. Customer satisfaction is reported to be at high levels in general, but it is necessary to further investigate this particular area with more analytical research, in order to come up with more specific conclusions.

The low motivation of human resources and the absence of modern management practices should be investigated as possible causes of the inadequate advancement of the tourism

product at many of existing Greek ski centers. Perhaps, the state business model – that governs the majority of ski centers in Greece – should be challenged.

This study is one of the few which has focused on the ski centers in Greece. Although it makes a contribution to ski tourism, it should be acknowledged that this study was qualitative in nature, and as such, the results need to be verified through extended research. In addition, more research to understand the current condition of Greek ski center marketing programs is needed. The present research referred to 14 out of 22 Greek ski centers, which implies that in the future the incorporation of the remaining 8 ski centers would make up the complete picture, relative to the research questions. Nevertheless, the repetition of the same work in a future point of time, even at only these 14 ski centers, would definitely help the respondent validation of the results (Lacey and Luff, 2001). Despite the current limitations, the present study could be a first step towards a better understanding of marketing actions in Greek ski centers where very little research has been done. Future studies can build on these results to complete this picture at the national level and compare it with other destinations with similar tourism characteristics in the Mediterranean area.

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## **TOWARDS A BENCHMARK OF SOCIAL ACCOUNTABILITY AND REPORTING: THE ITALIAN EXPERIENCE**

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### **Abstract**

The purpose of this paper is to describe main content, characteristics and typologies of communication of successful social reporting awarded (benchmark) in order to identify different how these aspects result in different objectives perceived by them.

In order to identify the objective of benchmark social accountability, the used methodology consists of:

- a systematic analysis of the literature concerning definitions, evolutionary trends, aims and guidelines;
- an analysis of standards of content and communication of 36 social documents awarded with the Oscar of sustainability in the last ten years.

Crossing these two aspects it's possible to understand different objectives of benchmark of social reporting.

The research findings show how successful social reporting is characterized by rich contents and strategies, a high explanation of strategies but an almost total absence of forecasting. The standards of communication show more patchy data. Furthermore, by crossing these variables, four different social documents are identified on the basis of their purposes: external communication and information, accountability, managing and planning, internal communication purposes.

This paper is an exploratory study due to the limited number of documents taken into consideration and the application of our methodologies only to Italian experiences.

The paper contributes to the literature on "social accountability" offering a basis of lecture and interpretation of successful experiences of social balances able to describe how the style of communication and content can result in a different purpose.

**Keywords:** Social Accountability, Social Reporting, Benchmark, Oscar of Sustainability.

### **Introduction**

In the last decade there has been a diffusion of tools of social accountability assuming (Anelli and Mosconi, 2010; Borgonovi and Rusconi, 2008; Farneti, 2004) a role of primary

importance, in particular in medium-large enterprises, called more than other ones to take a responsible conduct.

The traditional economical and financial reporting, that is translated at the end into the publishing of accounting balances, is not adapt to explain the activity of the firm to a large and heterogeneous public, often unable to read those prospects and get useful information. In addition, they don't reflect the double function attributed to the enterprise:

- an economic function, corresponding to the achievement of balance conditions throughout performance dictated by profit;
- a social function, concerning the minimisation of negative impacts and the valorisation of positive impacts determined by the development of firm activity inside the community where it acts.

For this reason, it's more and more important to be able to develop tools complementary to the obligatory traditional ones, in order to improve their communication and transparency and involve stakeholders.

Starting from 2000, there has been a plethora of documents with different characteristics classified under the label of social reporting but, despite the increasing diffusion of this literature on social reporting (Ricci, 2010; Verde, 2009; Mulazzani and Romolini, 2006; Steccolini, 2004; Catturi, 2004), no study focuses on the analysis of cases of success that can be considered as benchmark, their aims, framework and peculiarities.

In order to bridge this lack of knowledge, the present paper aims at reflecting on the different characteristics and kinds of communication of social reporting, in particular with reference to benchmarks of social accountability, thus allowing a reflection on how characteristics can be at the base of different purposes. The first part of the paper analyzes the current literature with a particular attention to definition attempts, aims and main guidelines of social accountability/reporting while the second one is devoted to the analysis of a sample of social documents awarded with the Oscar of responsibility.

## **Theoretical Background**

### **Definition approaches and evolutionary trends**

Starting at the beginning of 2000, it is possible to notice an increasing presence of publishing of balances and social reports. This phenomenon concerns different documents that assume a plurality of definitions:

Social balance, defined as a tool of communication created in the U.S.A. and known with different names: social audit, social accounting, social/corporate responsibility report. It is "a document reporting qualitative and quantitative information relating to social responsibility of the firm, which operates with market risk, trying also a remuneration par capital invested with risk" (Rusconi, 2006). It is destined to subjects interacting with the firm or all subjects

that could interact only potentially with the same (Farchione, 2006) and aims at supplying information of social nature to integrate the economical and financial ones.

Sustainability Report, defined as triple bottom line balance, that is a sort of shared but complementary reporting on economic, environment and social results. It is very similar to social balance (Condosta, 2008).

Social reporting document (Balance “di mandato”), that is the extension to the public sector of what social balance represents for enterprises. It must be useful to evaluate the starting and arriving points of different territorial contests, in time-comparing and verifying the incidence of policies of entrance and expenditure.

Environmental balance: it is an informative document describing main relationships between enterprise and environment and published in a not compulsory way in order to show firm strategy (Lazzarini, 2006).

The mission balance (Maggi, 2008; Rusconi, 2004) whose task consists of accounting to stakeholders for the perceiving of their objectives; this name is used when organizations involved are no profit.

The last important category or social reporting corresponds to territorial balance, which has the territory as objective of reference, a precise entity under social, economic, cultural and environmental point of view. The object of this document is the qualitative and quantitative system of financings, infrastructures and technologies in a particular territory. Its aim consists of accounting to the territorial organism of governance (Mulazzani and Romolini, 2006).

Social accounting, and in particular social balance, has a trend composed by different phases:

- '60s: this is a crucial moment characterized by the first manifestations in favour of an ethic posture from enterprises in American society. In Germany there was reference to Social Balance already in the '30s.
- '70s: the birth and first development of social balances, which can be attributed to Ray Bauer and Dan Fenn, in their work “The Corporate Social Audit” (1972), followed by another important contribution by John Corson and UCLA professor George Steiner, who wrote *Measuring Business's Social Performance: The Corporate Social Audit* (1974). In this period Anglo-Saxon Countries defined social accountability as something used to evaluate what the general accountability isn't unable to do; at the same time, in Germany a particular attention is devoted to a traditional accountable concept, the value add produced and distributed while, in France, relationships with dependents and Unions are underlined. Among pioneering models, it's possible to recall the model of Linowes- describing some main elements of the social balance, individuating positive and negative contributions towards civil society-, the financial and social balance of ABT Boston,

aiming at integrating values of income statement with evaluations of positive and negative economic externalities “pseudo-monetary” (Pigou, 1932), that is an hypothetical value in USD. Another important model is that elaborated by the group of study “Sozialbilanz-Praxis”, that constitutes the first true guideline, attributing a large attention to value add. Finally the “open model”, developed in the '80s, proposes three main objectives to social balance: the centrality of economic balance, the separation between additive and distributive evaluation, instrumentality of social balance. In this period, many other studies analyze social accounting: Epstein et al. (1976), Gröjer and Stark (1977).

- The decrease of tension of the '80s: in these years there is a fast change of prospect in economic policies and businesses became increasingly focused on economic prosperity, relegating social concerns to the periphery (Gray, 2002).
- Starting from 1990, the persistent idea that not limiting itself to direct drivers of success in the formulation of strategies can be useful to aims of profitability and the persisting success, can be possible only with the engaging of the total of stakeholders. Both professional accounting associations and academics contribute significantly to internal and external accounting (Bennett and James, 1998; Ilinitich et al., 1998; Schaltegger et al., 1996; Berry and Rondinelli, 1998).
- From the end of the '90s, a lot of organizations begin producing corporate environmental reports. In Italy the diffusion of social documents follows a different trend. It has its origin in the '70s but many difficulties block its course:
  - a scarce clearness and a unsuitable accountable information in the '60s and '70s;
  - a complete lack of transparency until the total '80s because it was considered a document for fiscal purposes;
  - a limited interest by Unions and other stakeholders towards social responsibility and balance. In the second half of the '90s, there is a decrease of internal obstacles as the fear of constraints and contestations and the culture of transparency is created (Rusconi, 2006).

### **Aims of social reporting**

It is very interesting to notice that social reporting is born in the private sector while the public one begins to approach this kind of documents only in the '90s.

Always sharing the objective of integrating economical and financial information, this kind of documents shows different purposes:

- an informative function, supplying a more complete information to stakeholders and helping them, in this way, to take decisions and a guarantee of a high level of diffusion and transparency of the choices (Casadei and Siboni, 2005);
- a managing and planning function: it's an attempt to monitor the climate of the social context where the firm operates and tries to include social objectives in the management of the firm; it allows to achieve a major rationality in the use of resources throughout an analysis of social climate characterizing the firm; it represents a driver for the change of strategies and systems of government towards the principle of responsibility and social and environmental sustainability (Gray, 1999).
- the accountability is one of the main objective of social balance (Alesani et al., 2005; Hinna, 2004) because it aims at accounting to stakeholders for choices of enterprises and for reached results. Thanks to this document, it is possible to have a complete picture able to describe all the firm dimensions: economic, social and environmental;
- a tool of communication and public relation and agreement (Condosta, 2008; Sarno, 2006): in order to favour the relationships with bodies, it's important to communicate a firm image able to get consensus, communicating also what it is considered useful; it allows to create moments of dialogue able to consolidate the relationships with their internal and external stakeholders, increasing the trust towards the organization (Guarini, 2002);
- a tool for supporting systems of governance aimed at controlling the efficacy and efficiency of internal processes, of external relationships and a defence tool to the attacks coming from particular organised groups like, for example, ecological organizations.
- the evaluation of produced richness, stressing the value add produced by the firm (Mei, 2004); its generic function consists of describing the reasons for which some costs are supported (Calice, 2007).

### **The main guidelines**

In the last decade, there has been a stronger need of standardization of social balances and respect of guidelines and standards.

Main specific international standards of accountability are: AA1000, Standard SA 8000, GRI, G3.

The first is a standard of process for the activity of Social and Ethical accounting, auditing and reporting (Calice, 2007) and defines procedural guidelines. It was issued in 1999 by the Institute of Social and Ethical Accountability (ISEA) in order to implement a personalized and socially responsible management system or to make a comparison between different

methodologies of social accountability. The phases of Accountability 1000 are: planning, accounting, auditing and reporting, embedding and stakeholder engagement.

The Standard SA 8000, created by Council on Economical Priorities Accreditation Agency (CEPAA) in 1997, today known as Social Accountability International (SAI). It aims at making labour conditions better and at creating an international standard of rights for labour and younger people. This model is structured in three elements: universal standards that it must respect, a set of organizational processes to support a logic of continue improving, the certification of conformity to the system by an external auditing body accredited by SAI.

GRI (Global Reporting Initiative) offers an integration of environmental, social and economical information in a single document named sustainability balance and it offers guidelines of content. All these elements (economic, social and environment sustainability) increase the operative complexity of enterprises which must face a model of accountability: the triple bottom line. It is divided into 4 different parts: ways of use of GRI guidelines, principles of accountability, content and attachments.

G3, an initiative launched in 1997 by the USA CERES government organization with the purpose of improving quality, strictness and utility of the sustainability report. The basic principles are divided into two different groups: principles supporting the definition of subjects and indices to be included in the report and principle granting quality and suitability of information.

Main nation models of accountability are:

- The model “Community-enterprise” (Chiesi et al., 2000), based on two main concepts: the social responsibility and the stakeholder one. It is divided into five sections: analysis of social and economic aspects, prospect of connection between civil and social balance, analysis of stakeholders, social budget, auto-evaluation of firm social quality.
- Concerning public administration (GBS), created spontaneously in 1998 in order to constitute a research team on the topic of social accountability for public administration; it admits a free framework for social balances, but according to common criteria. It is divided into three main parts (Farchione, 2006): the firm identity, the calculation of production and distribution of value add, the social report. Furthermore, it offers three important guidelines for the editing of the social balance: the social balance supplies information on social effect produced by the firm activity and not those forecast, it is an integrative tool of economic balance and must be presented after the first, it must be signed by a representative subject of the firm.
- IBS (European Institute for Social Balance), a model created before GBS by Marziantonio, which gives an important contribution for the circulation of social

balance in Italy. The current IBS framework consists of seven points: methodological introduction, identity, value account, system of accountability, propose of improvement, attestation of process conformity.

- ABI (Italian Banking Association), a sort of re-elaboration of IBS applied to credit sector; it was the first category association able to create a common model of social accountability.
- The cooperative social balance (Giglio et al., 1995), oriented to offer a sort of social accountability for cooperative sector and aims at offering some guide values to describe the firm activity.
- The standard Q-RES (quality of ethic and social responsibility), which is not only a protocol for social balance but it's a wider program of education, valorisation and certification of the ethic and social value of the firm activity in the non-profit sector. It defines six main sections: ethic vision of enterprise, ethic code, ethic training, organizational systems of control, social-ethical accountability, external verification.

Despite all these attempts, there is often a scarce uniformity among balances with reference to their structure and content, due to the not compulsory application of the same.

#### **An awarding system: the oscar of sustainability**

With the diffusion of these forms of social accountability, there has also been an evolution of awarding systems in order to identify the best social balances. The Oscar of social balance is the most famous award in this field; starting from 2000, it is conferred by Ferpi (Italian Federation for Public Relationships). In particular, the Italian award for social balance is created in 1995 while the environmental one exists from 1992. In 2001, a new award for the sustainability balance was instituted: since then, it has absorbed the last two ones. In the following years, a path towards an integrate reporting, like the triple bottom line style, has been developed. It is applied to any kind of organization and every five years awards are assigned to different categories: societies and big enterprises, SMEs, financial, banking and insurance firms, central and territorial organizations of Public Administration and non-profit organizations.

With reference to the way of evaluation, all the balances participating to this award are examined by a signalling commission, which proceeds to the examination of balances on the base of evaluation criteria established in the Regulation and proposes a set of 5 finalists to the Jury. The reporting commissions for the Oscar of Balance signal also two candidates for the special award for the Governance.

#### **Research Model**

In recent years, under the label "social accounting or social reporting", a plethora of documents with different contents, formats and characteristics can be observed.



Beside these documents, a lot of documents considered as “standard” has been created as well, but none of these is compulsory; this results in many documents with different content, structure and aim that are not always very efficient. In order to bridge these lacks and build a model of successful social documents of accountability/reporting, we identify the following key issues:

**Q1:** Which standard of content characterizes benchmark social reporting/accountability?

**Q2:** Which standard of communication characterizes benchmark social reporting/accountability?

**Q3:** What do these benchmark documents aim at?

The research model is based on the following variables:

- with reference to the standard of content: economical and financial aspects (presence of comments of results, trends), prospected ones (mission, strategies, forecasting);
- with reference to standard of communication: readability (in terms of easiness of understanding and graphic representation) and accessibility (in terms of availability on the web site and facility to download).
- with reference to reply to Q3: main objectivess declared in the introduction of each balance are analyzed;

In particular, 3 variables are shown, each of them provided with a number - ranging from 2 to 5 - of sub-variables describing them better.

The measurement items used for the standard of content rely on a 3-point scale (1= scarce presence/absence; 2= medium presence; 3= strong presence) similar to that employed with reference to readability and accessibility (1=difficult; 2= medium difficult; 3= easy).

These analysis are performed on a sample of 36 social documents representing the different categories of firms (MNEs, SMEs, Banking/Financial and Assurance firms, Central and territorial Bodies and non-profit organizations) on the base of the quantity of awards gained by each single category and, of course, on the base of the criteria of accessibility. They are chosen among social documents winning the Ferpi in the last 10 years (1999-2009). This analysis allows us to draw a successful model of balance accountability/reporting. Data have been analyzed with the SPSS software.

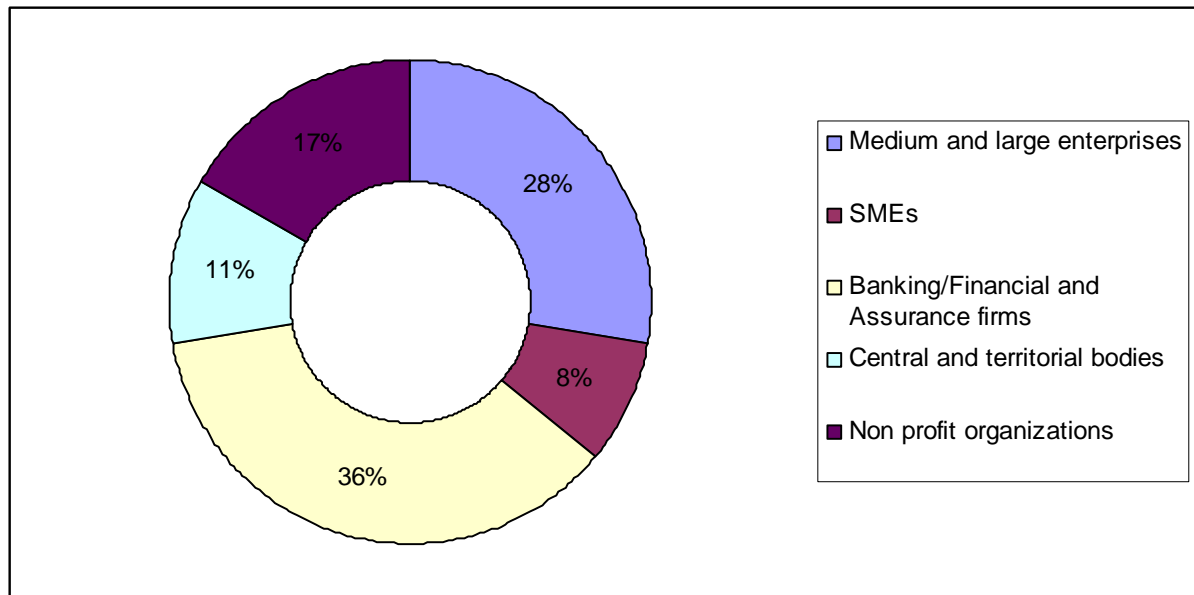


Figure 1. Composition of the sample

Source: personal elaboration

### Analysis of results

From this survey it emerges how 42% of the documents are complete balances, 36% social balances, 14% sustainability balances, 6% mission balances and 3% environmental balances.

They show a very rich standard of content: in particular, with reference to economical and financial aspects, 97% of our sample shows a medium or high presence of comments of results, where 53% of this is highly present; a similar result is portrayed by the presence of trends that have a medium or high relevance in the documents in 94% of the cases.

Prospect aspects get less homogeneous results: with reference to the mission, in 42% of them there is no mention of it, while 47% of them spends a large space for its description. More positive are the data referring to strategies registering a high presence in 67% of the documents while forecasting results scarce since it registers a scarce or medium presence in 92% of the cases. Speaking of standard of communication, our sample shows more patchy data. With reference to readability, in 77% of the cases our sample of document is medium or easy to understand while it shows a poor uniformity with reference to graphic representation on the base of main objectives pursued by the organization: 47% of documents shows a clear and high presence of data while in 33% of them graphics are absent or very difficult to understand. The most appreciated characteristic of communication is the accessibility of documents: in fact, in 80% of the cases they are available on the web and 64% of them are easy to download. A surprising datum characterizes the objective declared by these successful social accountable/reporting documents, i.e. in 47% of the cases they aim at external communication and only in 25% of the cases they pursue a main purpose of

accountability; only 11% of the sample has as managerial or informative purpose while irrelevant are documents aiming at internal communication.

<i>1. Standard of content</i>	<i>Scarce presence</i>	<i>Medium presence</i>	<i>High presence</i>
<i>1.1. Economical and financial aspects</i>			
<i>A. Presence of comments of results</i>	3%	44%	53%
<i>B. Presence of trends</i>	6%	58%	36%
<i>1.2. Prospected aspects</i>			
<i>A. Mission</i>	42%	11%	47%
<i>B. Strategies</i>	14%	19%	67%
<i>C. Forecasting</i>	56%	36%	8%
<i>2. Standard of communication</i>	<i>Difficult</i>	<i>Medium difficult</i>	<i>Easy</i>
<i>2.1. Readability</i>			
<i>A. Facility of understanding</i>	23%	33%	44%
<i>B. Graphic representation</i>	33%	20%	47%
<i>2.2. Accessibility</i>			
<i>Availability on the web site</i>	19%	36%	44%
<i>Facility to download</i>	17%	19%	64%
<i>3. Prevalent Objective</i>	<i>Percentage</i>		
<i>3.1. Informative</i>	11%		
<i>3.2 Managing and planning</i>	11%		
<i>3.3 External communication</i>	47%		
<i>3.4. Internal communication</i>	6%		
<i>3.5. Accountability</i>	25%		

*Table 1. Results of the analysis*

*Source: personal elaboration*

### **Discussion of results**

On the basis of the findings of this survey, crossing both standards of content and communication different profiles of successful social documents have been developed. A deeper analysis must be proposed for the different factors objects of our analysis. These results acknowledge that social accountability/reporting documents are very rich with reference to content- in particular, in terms of economical and financial aspects- apart for a very few cases exclusively represented by some non-profit organizations. Also the detailed explanation of strategies can be considered as another common characteristic of benchmark social documents. The mission of the organization is clearly defined in particular in social balances or, more generally, when the main purpose of the organization is that of communication. An almost total absence of forecasting is registered by our sample, showing a not high interest for future perspectives while a medium presence of trends shows an interest for the past data.

The second key of lecture employed to analyze social documents is that of their standard of communication, meant as the capability of using an understandable language and graphic form. At an extreme of the spectrum of analysis, it's possible to place documents with a high readability, easily accessible also by non-expertised stakeholders. In this case we can notice a correspondence between the level of graphic and readability easiness and also between a high readability of documents and the presence of clear mission and strategy.

With reference to accessibility, it is important to notice the availability of the website and a high facility to download; at the same time it's possible to underline how, in most cases, documents are not accessible or accessible with difficulty in many non-profit organizations. Crossing the results of the analysis on content and readability aspects, it emerges a very interesting picture on the efficacy of documents in using communicative formats, also coherent with the typology of information supplied. In some cases it's possible to notice a full coherence among technical contents, ways of graphical exposition and scientific language. In other cases there is not coherence between informative dimensions and modalities of representation of data, with particular reference to documents, rich under the content profile but scarcely accessible to a wide public of stakeholders. Considering these propositions, it's possible to identify a series of groups inside our sample of documents; in particular four main groups of documents are distinguished:

- social documents/reporting with purposes of external communication and information: in these cases we can find a high presence of comments and graphics, a clear identification of the mission, leading to an easy readability of documents.
- social documents with purposes of accountability: they show a very rich technical content but they are difficult to read for non-expertised stakeholders and lack graphics.
- social documents aiming at managing and planning: they present a medium presence of comments and trends as well as a medium difficulty of readability. They are addressed to territorial bodies in order to look for approval and negotiation of particular resources.
- social documents aiming at internal communication: they are characterized by both a low standard of contents and a low standard of readability. They are addressed to internal stakeholders with the purpose to involve them in firm choices and strategies.

Different typologies of documents are summarized in figure 2.

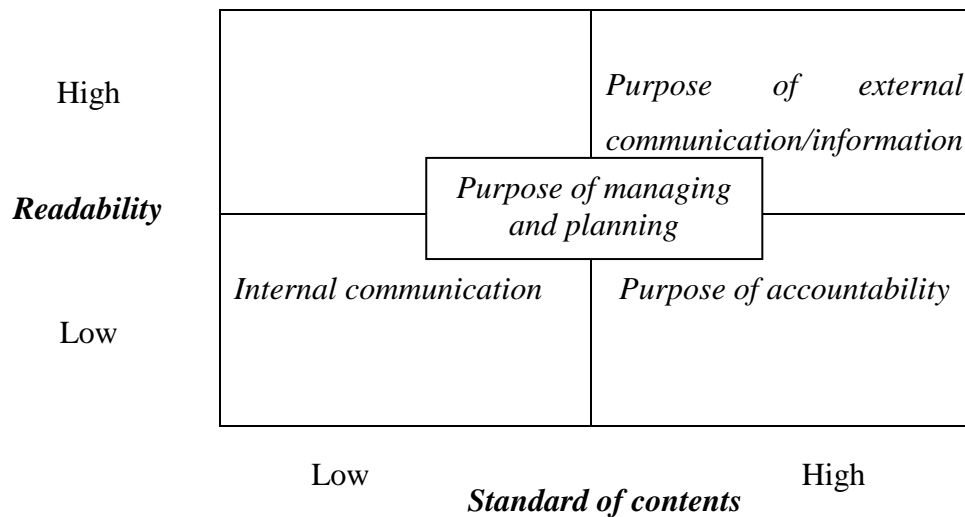


Figure 2. Typologies of social documents

Source: personal elaboration

## Conclusions, Limitation and Future Works

Despite the topic of social accountability and reporting is widely discussed in literature, it is not so clear which advantages this tool supplies to enterprises and there is not a complete agreement on the fact that shareholders are favourable to invest their savings on social causes, often tied with lower profits.

The only clear aspect is that an increasing number of enterprises adopts these kinds of documents with different objectives.

The analysis offered in this paper shows how it is not possible to build a single benchmark for social documents because of their different peculiarities. However it's possible to find some common characteristics present in each document: high presence of comments and main strategies, an astonishing absence of forecasting and facility of downloading.

The paper contributes to the literature on "social accountability" offering a basis of lecture and interpretation of successful experiences of social balances able to describe how the style of communication and content can result in a different purpose.

In fact, they change their standard of content and of communication on the base of the objective they aim at, also when most of them use these tools to enrich and communicate their image or for purposes of accountability.

Although this work offers important issues, there are some limitations which should be taken into account. In fact, our research is an exploratory study due to the limited number of documents taken into consideration and the application of our methodologies only to Italian experiences.

In addition, future research on this topic could compare standard of content and communication of benchmark with those of unsuccessful documents and investigate the

possibility of creating a profile of successful social documents for firms belonging to different sectors. Furthermore this study can be used as exploratory study to demonstrate with more sophisticated statistical tools.

## Biography

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## ON THE RELATIONSHIP OF SYSTEMATIC RISK AND FINANCIAL AND OPERATING RISK: THE CASE OF THE GREEK LISTED FIRMS

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### Introduction

Since the development of Capital Asset Pricing Model (henceforth CAPM) from Sharpe (1964) and Lintner (1965), numerous academic and managerial studies have examined the impact of firm's cost and capital structure on its systematic risk, which according to Hamada (1972) is broken down into operating and financial risk components.

According to theory, systematic risk refers to the variation of a firm's price returns that are associated with factors common to the market that cannot be diversified away. Operating risk derives from the firms operating decisions and cost structure and can be measured by the degree of operating leverage (henceforth DOL), which is defined in terms of the relationship between fixed costs and total costs. Operating risk reflects the combined effects of the degree of operating leverage, the pure systematic influence of economy wide events and the uncertainty associated with the firm's operating efficiency. Financial risk comes from the firm's financing decisions and capital structure and is measured by the degree of financial leverage (henceforth DFL). Financial leverage magnifies operating risk (Rubinstein, 1973).

The issue of connection of financial and operating leverage to the systematic risk is important for several reasons: With the knowledge of how the financial and operating decisions affect the firm's systematic risk both financial managers and investors are able to make market-based estimates on projects and forecast ex ante risk. Moreover, accountants can achieve effective formulation of accounting policies (Brimble and Hodgson, 2007; Patel and Olsen, 2002).

During the last forty years many researchers have tried to analyze the relationship of a company's systematic risk with its operating and financial characteristics. The purpose of this study is to analyze and decompose the beta to its variables financial and operational risk plus to other factors affecting it, testing it for the Greek companies listed in the Athens Stock Exchange.

Though DOL and DFL are the fundamental determinants of systematic risk, prior models did not render high explanatory power in the Greek studies for the period 1997-1999, suggesting the need to consider for more accounting variables than DOL and DFL, which affect and determine the operating and financial risk in the Greek market.



While a great number of studies have examined empirically and theoretically the effects of leverage on systematic risk in many countries, only a restricted number of such researches have been published in Greece. Additionally, no systematic research has been carried out investigating the relationship between beta, DOL and DFL and other variables for the last decade in Greece.

The study is organized in the following manner. Section 2 provides a background of the relevant literature, Section 3 shortly presents the traditional portfolio theory on which this quest is based and goes on to develop the hypothesis testing. Section 4 outlines the model formulation and data and illustrates the methodology of the empirical part of this study. Section 5 describes and discusses the empirical results. In section 6 the conclusions, as well as the limitations and implications of the research are presented.

## **Literature Review**

Considerable effort has been expended to identify the relationship between systematic risk and DOL, DFL and other variables. The first significant attempt to link market-systematic risk and financial data was conducted by Beaver et al. (1970). Betas were estimated for 307 firms over the 1947-1956 and 1957-1965 periods. Significant correlations between estimated accounting betas and financial leverage, earnings yield instability measures and dividend payout ratio were identified.

An improved effort to link systematic risk and business and financial risk was conducted by Hamada (1972). Assuming that the Modigliani Miller theory is valid and that the CAPM is correct, using data of 304 different firms over the period 1948-1967, he found that approximately 21 to 24% of the beta's value is explained by financial leverage, a result that also Beaver et al. (1970) and Petit and Westerfield (1972) found.

A risk decomposition theoretical approach similar to Hamada (1972) and Rubinstein's (1973), was also developed by Hill and Stone (1980), in an attempt to investigate the joint impact of operating risk and financial structure on systematic risk. A non linear correlation between beta and financial leverage was found.

Later on, Marston and Perry (1996) empirically investigated the relationship between financial leverage and beta. Using a cross-sectional approach, they concluded that the commonly applied techniques for unlevering beta tend to over-penalize beta when higher levels of financial leverage are being utilized. Later, this implication was re-enforced by Faff et al. (2002), who provided evidence on the impact of financial leverage on beta by using a time-series analysis.

Other studies focused on developing multivariate relations between systematic risk and a number of corporate risk factors. Bowman (1979) demonstrated that beta is a function of firm's leverage and not of earnings variability, growth and size and dividend policy. In a sample of 1400 firms, Breen and Lerner (1973) tested the multivariate explanatory power of

many financial variables by using cross section regressions with data over the period 1965-1970. As they had expected, the stability of the growth in earnings, the size of the company and the dividend payout ratio had a predominately negative impact on beta, while the operating leverage and the number of traded shares had a positive one.

Such a multiple regression approach was also employed by Logue and Merville (1972), over the period 1966-1970, for 287 industrial firms. A statistically significant relationship linked estimated betas with the asset size, return on assets and financial leverage variables. Gahlon and Gentry (1982) illustrated the contribution of both the degrees of financial and operating leverage to the beta of common stock. They showed that the beta of common stock is a function of, DOL and DFL, the coefficient of variation of the total revenue, and the coefficient of the correlation between earnings after interest and taxes and the return on the market portfolio.

The multiplicative relationship of DOL-DFL was demonstrated better by Mandelker and Rhee (1984), who used a correlation-based analysis. They highlighted the joint impact of asset and capital structure on the systematic risk and examined the trade off hypothesis (cross sectional negative correlation) between DOL and DFL. For their empirical study, they collected data of 255 manufacturing firms during the period from 1957 to 1976, distributed over ten different industries. By running time series and cross sectional logarithmic regressions, they proved that coefficients of DOL and DFL were both positively associated with the relative riskiness of common stock, with an explanatory power of 38 to 48%.

However, the validity of these results was brought into question, when Huffman (1989) reexamined the above research. She used two updated samples: one sample consisted of 376 manufacturing firms with both positive and negative earnings and one sample consisted of 268 manufacturing firms with only profits. Following a similar methodology with that of Mandelker and Rhee (1984) and running three cross sectional regressions for the period 1966-1985, she could not confirm the combined effect that the degrees of operating and financial leverage have on systematic risk. Although, she supported the positive impact of DFL on systematic risk of common stock, she did not manage to establish the same connection between DOL and beta. The last relationship seemed to be positive when the test was applied on firms with only positive earnings, while this link was negative when the sample of firms with losses was used. The differentiation of such relationships among industries led to incoherent results and thus the trade off hypothesis did not hold. Later, all Huffman's propositions were favored by Darrat and Mukherjee (1995), who checked the existence of inter-industry differences in the relationships among DOL, DFL and beta, using a vector-autoregressive causality approach in a quarterly sample, consisted of 48 firms of six different industries over the period 1975-1987.

A more current theoretical study on the relation among systematic risk and DOL, DFL, market return and risk free return is given by Chiou and Su (2007). By integrating the CAPM

and the Cobb-Douglas function, they reported that DOL and DFL are positively related for a given level of systematic risk, but only for firms with positive sales growth. Moreover, suggested that the degrees of total leverage (the combination of DOL and DFL in a multiplicative manner) have positive impact on systematic risk, if firm's book value, dividend and earnings used as control variables.

Turning to the Greek evidence, Eleftheriadis and Agorastos (2002) selected a sample of 319 Greek firms from the food and beverage manufacturing sector, which had total assets over 100 million drachmas and occupied more than 30 employees over the period 1988-1993. Using operating beta and mean debt ratio as proxies for operating risk and financial leverage, they illustrated that there is a negative correlation between the independent variables and beta. Karathansis and Filippas (1990) measured the degree in which changes in stock prices can be attributed to changes in the variables that portfolio theory suggests. They examined this relationship using a sample of all commercial banks that are listed in the Athens Stock Exchange. Their findings implied that dividends, earnings growth and size have a significant positive impact on stock price, while the degrees of financial and operating leverage are not suitable for explaining the changes in stock prices. They also suggested that a possible reason of this result may be that the investors use only size variable to take information relevant to systematic risk.

From the literature review we see that there are contradicting views on the relationship between systematic risk and financial and operating risk. As for the case of Greece, to the best of our knowledge, the issue of DFL and DOL and other variables effect on the systematic risk has not been adequately researched so far.

## **Theory and Hypotheses testing**

The use of leverage in general is affecting the firm's earnings and losses. The more leverage a company is using, the higher its earnings' variability, hence the company risk.

High levels of operating leverage have to be followed by low levels of financial leverage and the reverse, in order for the systematic risk to remain steady. Market or systematic risk that affects most or all assets in the market cannot be diversified and continues to persist even in large and diversified portfolios. Since the main objective in Finance is to maximize firms' returns and to minimize risk, we concentrate on the latter issue. A high level of total systematic risk will cause a high cost of capital for the firm and as a consequence, a decrease in the value of the firm and its stock price, if it is a listed company.

There are two kinds of business risk, the external and the internal. The external business risk comes from functional terms that are imposed to the business itself due to the external market forces, on which it cannot show any kind of control whatsoever. It can be source of systematic and unsystematic risk. This can be caused if the external forces that are exercised on the business itself affect the market in total or just the business. The internal business risk

is referred to the business functional effectiveness and is related to the management ability, the products' diversion, the effectiveness of the used capital and forms by definition source of unsystematic risk.

According to the traditional portfolio theory, the business risk depends heavily on the operating leverage that a firm is using, as the financial risk depends heavily on the financial leverage used by a firm. The degree of operating leverage (DOL) is one measure of operating risk and the degree of financial leverage (DFL) is one measure of financial risk, that both form the firm's total systematic risk. As Damodaran (2004) implied *"DOL is a function of the cost structure of the firm, and is usually defined in terms of the relationship between fixed costs and variables costs"*. Due to these cost's aggregation in income statements, a good proxy for DOL is the ratio of percentage changes in operating income to percentage changes in sales. A change in operating income higher than the change in sales, will lead to higher operating leverage and thus to higher systematic risk. As regards DFL, Weston and Brigham (1986) implied that the degree of financial leverage is equal to the percentage change in net profits divided by the percentage change in the earnings before interest and taxes. When a firm has no debt, the degree of financial leverage will be equal to one.

The most common method of estimating the systematic risk of a firm is to use the CAPM to calculate the market beta. The expected return, derived from the CAPM model, is the cost of equity:

$$E(r_i) = r_f + \beta_i (E(r_m) - r_f)$$

where,

$r_f$  = Riskfree rate

$E(r_m)$  = Expected Return on the Market Index (includes all traded assets in the market held in proportion to their market value)

$\beta_i$  = beta: a standardized measure of systematic risk ( $\beta_i = \text{cov}_{im} / \sigma_m^2$ )

The CAPM under the Fundamental Approach implies that beta is determined by fundamental decisions that the firm has made on what business to be in, how to run that business and the degree to which the firm uses debt. A firm with a high DOL ratio will have higher variability in operating income and this will lead to a higher beta and thus to higher systematic risk. Turning to financial decisions, a higher DFL ratio increases the variance in earnings per share and makes equity investment in the firm riskier. Consequently, an increase in financial leverage will increase systematic risk (Damodaran, 2006). This also holds for the combination or otherwise the product of the two risks (DOL\*DFL).

If the management's objective is to decrease the level of the firm's total risk, or at least to keep it stable, high operating leverage can be combined with low financial leverage and the

reverse, so that the total level of risk remains unchanged, or as low as possible. This proposition, based on the study of Mandelker and Rhee (1984), is called the “trade-off hypothesis”. Therefore, we can imply that the relationship between DOL and DFL should be negative for all the industry categories.

Based on the above theory, we make the hypotheses that follow for each pair of possible relationships between systematic risk and the component variables of operating, growth and financial risk.

Several empirical studies have demonstrated the linear significant positive relationship between financial leverage and systematic risk (Modigliani and Miller, 1958; Li and Henderson, 1991; Mandelker and Rhee 1984; Eleftheriadis and Agorastos, 2002; Hamada, 1972; Beaver et al. 1970; Logue and Merville, 1972; Huffman, 1989; Amit and Livnat, 1988; Borde, 1998; Lee and Jang, 2007). In contrast, according to Lord (1996) and Brimble and Hodgson (2007) the DFL is not related to systematic risk and according to Melicher (1974) and Breen and Lerner (1973) this relationship is non linear and quadratic in nature. Since more empirical studies advocated the positive association between DFL and beta, we hypothesize the same relationship in this study. As of the above and based on the theory we make the following hypothesis:

**Ha: DFL and systematic risk are positively associated**

Many proxies of financial risk which affect systematic risk were identified by Thompson (1976), who tried to lessen the measurement errors by grouping the explanatory variables into four categories: variances, means, trends and covariant forms. One of such variables was the interest coverage ratio, for which he found a significant but negative impact on systematic risk. Moreover, the same results were supported by Brimble and Hodgson (2007) using the OLS beta estimation and a multivariate regression model. Following the above academic literature, a negative sign is expected for interest coverage ratio coefficient. Therefore, we test the hypothesis:

**Hb: Interest coverage ratio has a significant negative impact on systematic risk**

Jensen (1984) implied that high liquidity can raise agency costs of free cash flow and thus increase systematic risk. On the other hand, Logue and Merville (1972), Beaver et al. (1970) and Moyer and Chartfield (1983) contended that firms with greater liquidity have lower systematic risks. Although these two studies found different signs of the liquidity coefficient, they evidenced the significant relationship between liquidity and beta. The hypothesis tested in this study is:

**Hc: Liquidity and systematic risk have a direct significant relationship either negative or positive.**

Turning to the association between the DOL and systematic risk a debate exists among several researchers. On the one hand, when a firm increases the levels of fixed costs with a

simultaneously decrease in unit variables costs, systematic risk should be increased. (Lev, 1974; Breen and Lerner, 1973); Lord, 1996; Mandelker and Rhee, 1984; Li and Henderson, 1991; Hamada, 1972; Sudarsanam, 1992; Eleftheriadis and Agorastos, 2002). On the other hand, a negative significant relationship between these two variables was indicated by Logue and Merville (1972) and Huffman (1989). Based on the traditional portfolio theory and in line with most researchers and specially Eleftheriadis' and Agorastos' (2002) study, which supported this positive relationship for Greek firms, we expect a significant and positive relationship of DOL and systematic risk.

**Hd: DOL and beta will be positively associated.**

Previous studies adopted the dividend payout ratio in determining financial variables' association with systematic risk. Breen and Lerner (1973) used cross section regressions with data over the period 1965-1970 and as they had expected, the dividend payout ratio had a predominately negative impact on beta. Melicher (1974) used the multi-regression and stepwise multiple regression statistical techniques in conjunction with the factor analysis approach in testing significant link between betas (dependent variable) and financial factors (independent variables). Applying the above methodology on 84 firms operating in the electric utility industry over the period 1967-1971, he also found that the dividend payout ratio had a negative significant impact on estimated betas. Following the output of these two analyses generally exhibited in the most recent empirical studies, this study adopts inverse relationship between dividend payout ratio and beta.

**He: Dividend payout ratio is statistically significant and affects negatively the systematic risk.**

Another research question relates to the relationship between growth risk and systematic risk. Previous academic literature adopted the size and the growth measures in determining growth risk association with systematic risk. Concerning the size, the past empirical results are controversial. Breen and Lerner (1973), Kim et al. (2002) and Logue and Merville (1972), supported a significant negative relationship between the firm's size and the beta. On the other hand, a positive correlation was suggested by Sudarsanam (1992), Lee and Jang (2007) and Melicher (1974). Given that the present study is calculating size using the same proxy as Lee and Jang (2007) and Melicher (1974), it is hypothesized that an increase in size will cause an increase in firm's beta.

**Hf: size and systematic risk are positively correlated**

Growth serving as a proxy for growth risk is considered to be a significant indicator of systematic risk. Many prior empirical studies investigating the relation between market risk and corporate financial variables supported a positive association between market risk and growth. According to Bowman (1979), this association is valid when growth is measured in earnings or total assets. Moreover, according to Miles (1986), when growth is defined in the

sense of total assets, the larger the growth variable the greater is the non diversifiable market risk. In the present research growth is measured as changes in total assets. Therefore, a positive impact of growth on market risk is anticipated.

**Hg: the larger the growth, the higher is the beta level and hence firm's systematic risk**

In this study, the effect of profitability on systematic risk is examined. This is researched in this study for the first time for the Greek firms. Melicher (1974) concluded that firms with lower profitability have lower systematic risk. Additionally, according to Border, Chambliss and Madura (1994), high profit firms expect to become more profitable. To achieve this goal, they take more credit risks and hence systematic risk becomes greater. Contrary to above literature, Gu and Kim (2002) and Logue and Merville (1972) suggested that high levels of profitability lead to the decrease of financial instability and therefore to the decrease of the non diversifiable risk. Thus, a negative relationship should exist between the firm's beta and its profitability. We try to find evidence of a significant association either positive or negative between profitability and systematic risk.

**Hh : Profitability is a significant predictor of systematic risk.**

After testing for the five fundamental hypotheses, it is a simple matter to test Eleftheriadis and Agorastos (2002) hypothesis that there is a significant inverse relationship between the variables of DOL and DFL. Considerable prior empirical work in other countries has also evidenced this association (Mandelker and Rhee (1984); Brigham (1986); Weston and Copeland (1986). In other words, firms have to adjust business risk and financial structure in order to obtain a desirable amount of risk (Merikas et al. 1986). However, there is another opposite view. Huffman (1989), Lord (1996) and Chiou and Su (2007) concluded that the trade-off hypothesis did not hold and thus no interaction could exist between DOL and DFL. Because our study examines this relationship for Greek firms, we follow Eleftheriadis' and Agorastos' opinion. As of that,

**Hi: there is a statistically significant positive correlation between systematic risk and combined or Total Leverage (DOL\*DFL), which means that there exists a negative interaction effect between DOL and DFL.**

Finally, another research question relates to the sensitivity of the relationships between operating, financial and growth risk variables and systematic risk to the time period and economic activity. Previous academic literature found that the value relevance of accounting information was declining over different time periods (Brown et al. 1999; Francis and Shipper, 1999; Collins et al. 1997). Extending Greek research, this study tries to find out whether the explanatory power of DOL, DFL and the other contributor variables for systematic risk is changing over time. Having in mind the above literature and the instability of the Greek economic environment among the years 2001-2008 and following Breen and

Lerner's (1973) methodology, which led to this result, this study expects differences arising in the examined significant relationships between the short and long term period.

**Hj: Relationships between the systematic risk and the operating and financial risk determinants are time sensitive**

## Data and Methodology

The most of the aforementioned hypotheses are tested by conducting Ordinary Least Square panel data estimation methodology which uses time series and cross-sectional regressions. For running the regressions, the E-views econometric software is used (See also the Appendix).

This study is based on a random sample of 138 Greek companies that are listed in the Athens Stock Exchange (ASE) during the period from 2001 to 2008. Data are collected from the financial statements of firms, available on the ICAP online database. The websites of each firm are also sometimes used to verify some ambiguous or missing accounting data. We resulted in a final pooled time series data set comprised of a total of 1104 annual observations. The sample consists of a wide range of organizations in a variety of financial positions: high or low growth firms, highly or low geared firms (in terms of financial and operating leverage), and firms with positive and negative earnings, large and small capitalization and from both commercial and manufacturing sectors. Financial and government firms are excluded from the sample. Moreover, firms that are firstly traded after the fiscal year 2002 or do not have all their financial data available are not included. The following table presents the firms integrated in the final sample:

<i>Industry</i>	<i>Number of firms</i>
<i>Technology</i>	<i>11</i>
<i>Personal and Household Goods</i>	<i>32</i>
<i>Chemicals</i>	<i>9</i>
<i>Construction and materials</i>	<i>26</i>
<i>Pharmaceuticals</i>	<i>2</i>
<i>Industrial goods and services</i>	<i>18</i>
<i>Food and Beverage</i>	<i>24</i>
<i>Oil and Gas</i>	<i>1</i>
<i>Basic resources</i>	<i>15</i>
<i>Total</i>	<i>138</i>

*Table 1 Firm distribution to industry sectors*

Based on theory and empirical findings abroad we constructed a multivariate regression model in order to investigate the relationship of systematic risk and financial and operating



risk and other factors that can explain better the variations in beta across the sample firms. The dependent and the independent variables we use are given in the table 1 below. We use beta and many yearly financial factors for each firm over the period 2001 through 2008. The model is defined as follows:

$$\beta_{it} = a_i + b_1DOL_{it} + b_2DFL_{it} + b_3DPR_{it} + b_4LIG_{it} + b_5ICR_{it} + b_6ROE_{it} + b_7SIZE_{it} + b_8GROWTH_{it} + b_9DOL_{it} * DFL_{it} + \varepsilon_{it}$$

where the variables are defined in Table 2.

$\beta$	Beta
<i>DOL</i>	<i>Degree of Operating Leverage</i>
<i>DFL</i>	<i>Degree of Financial Leverage</i>
<i>DPR</i>	<i>Dividend Payout Ratio</i>
<i>LIG</i>	<i>Liquidity</i>
<i>ICR</i>	<i>Interest Coverage Ratio</i>
<i>ROE</i>	<i>Return on Equity</i>
<i>SIZE</i>	<i>The log of Total Assets</i>
<i>GROWTH</i>	<i>Change in Total Assets</i>
<i>DOL*DFL</i>	<i>Interaction Variable</i>
$\varepsilon$	<i>Residual Term</i>

Table 2 Definition of variables

## Estimation Procedures

### Beta Estimation (dependent variable)

The first step is to compute yearly beta for each firm. As proxy for systematic risk, this study uses OLS/Market beta. According to Euthimoglou (1996), the simplest way of estimating the market risk is by using beta factor. The standard static market model is calculated by the linear time-series OLS regression. The estimated yearly beta of each stock is derived by regressing monthly stock returns against monthly market returns:

$$R_{it} = a_i + \beta_i \cdot R_{mt} + e_{it} \quad (\text{Market Model})$$

where:

$R_{it}$  realized return for stock i in the period t

$R_{mt}$  realized return on the Athens Stock Exchange General index on period t

$a_i$  intercept term for asset i

$\beta_i$  coefficient of systematic risk

$e_{it}$  residual term

The length of the estimation period is two-four year periods and one eight-year period and the return interval is monthly. Although longer estimation period provides more data, firms' risk characteristics maybe have changed over the time period. Moreover, using daily or intraday return on stocks will expose the estimation process to a significant nontrading bias in beta estimate. The measurement of monthly rates of return on the market portfolio is based on the General Index of the Athens Stock Exchange (henceforth ASE).

Although, the CAPM suffers from limitations, is the preferred method in this research, since it is simpler and the best alternative for computing beta capturing all market risk in the market portfolio.

#### **Financial Factors' Estimation (independent variables)**

The second step of the analysis involves the estimation of financial factors of the sample firms. In terms of operating risk, DOL, DPR and LIG are used. In this study the degree of operating leverage is computed by using the ratio of the yearly percentage changes in earnings before interests and taxes (EBIT) to the yearly percentage changes in sales (Lev, 1974; Damodaran, 2006; Rosenberg and Mckibben, 1973; Brimble and Hodgson, 2007; Lee and Jang, 2007; Lord, 1996; Chiou and Su, 2007; Mandelker and Rhee, 1984; Huffman, 1989). The estimation of dividend payout ratio uses the yearly  $t$  periods dividends divided by the yearly earnings of ordinary shareholders (Beaver et al. 1970; Brimble and Hodgson, 2007; Breen and Lerner, 1973). Finally, following Lee and Jang (2007), Brimble and Hodgson (2007), Beaver et al. (1970) the ratio of yearly current assets to yearly currents liabilities is used as proxy for liquidity.

Turning to financial risk, DFL and ICR are its components variables. The degree of financial leverage is the most commonly used indicator of beta. Theory defines as appropriate proxy for DFL, the ratio of the market value of debt to market value of equity. However, in our analysis, the ratio of the yearly book value of debt to the yearly book value of equity is considered as proxy of DFL. Either the difficulties in calculating the market value of debt due to missing data, or the fact that financial managers give attention to book value leverage measures (Scott and Johnson 1982) lead us to use book values rather than market values for this proxy. The use of book values was also proposed by Huffman (1989) in order to protect the model from a potential selection bias.

Following Damodaran (2006), Bildersee (1975) and Thompson (1976) the interest coverage ratio is also a good proxy for financial leverage and it is measured by using earnings before interests and taxes divided by total interest expenses.

Concerning growth risk, size and growth are its components variables. Size is calculated as the log of total assets following Lee and Jang (2007), Thompson (1976) and Melicher (1974), while growth variable is calculated as the change in total assets following Beaver et al. (1970) and Brimble and Hodgson (2007).

Following Euthimoglou and Lasaridis (2000), Martikainen ( ) and Melicher (1974), ROE is used for measuring profitability. The key ratio that is widely used in the empirical research to proxy the return on equity variable is the ratio of the yearly net income after taxes to the yearly total equity capital.

Moreover, following Li and Henderson (1991) and Lord (1996) this study includes the interaction variable (DOL\* DFL) in the regression model, in order to examine the hypothesis for the relation between DOL and DFL.

Finally, for testing the time relationships between the estimation of betas and measurement of financial variables, we run in a similar fashion as above the multivariate regression model over two intervals. According to Melicher (1974), Brible and Honston (2007) and Thompson (1976) two time periods are needed to examine the stability of the relationships over time. Subsequently, utilizing the same sample we decompose the dataset into two four year moving estimation sub-periods, from 1st January 2001 to 31st December 2004 and from 1st January 2005 to 31st December 2008 and conduct a further association test.

## Empirical Results

The outputs of E-views related to panel least squares estimates of the model over the periods 2001-2008, 2001-2004 and 2005-2008 are presented in tables below:

<i>Variables</i>	<i>coefficient</i>	<i>Standard Error</i>	<i>T-ratio</i>
<i>DOL</i>	-0.615846*	0.151116	-4.075313
<i>DFL</i>	-0.357082*	0.064596	-5.527947
<i>DOLDFL</i>	0.399394*	0.088112	4.532814
<i>GROWTH</i>	0.036621*	0.014716	2.488499
<i>ICR</i>	1.93E-05**	1.07E-05	1.802521
<i>DPR</i>	0.071669*	0.027772	2.580624
<i>LIG</i>	-0.006385	0.013265	-0.481294
<i>SIZE</i>	-0.007942	0.018607	-0.426826
<i>ROE</i>	0.002114	0.002079	1.017108
** denotes statistical significance at 10% significance level			
* denotes statistical significance at 5% significance level			

Table 3: The effects of factors on systematic risk in the long term

## Financial risk variables

The results indicate that the financial risk determinants of systematic risk, i.e. the degree of financial leverage and the interest coverage ratio have a significant impact on systematic risk. However, as opposed to our expectations, the impact of DFL is negative, while the impact of ICR is positive.

These findings do not correspond to the current portfolio theory and comes in contradiction to the positive association reported in many earlier empirical efforts (Modigliani and Miller, 1958; Li and Henderson, 1991; Mandelker and Rhee 1984; Eleftheriadis and Agorastos, 2002; Hamada, 1972; Beaver et al. 1970; Logue and Merville, 1972; Huffman, 1989; Amit and Livnat, 1988; Borde, 1998; Lee and Jang, 2007). According to Lord (1996), this anomaly as to the negative impact can be explained by recalling that the used proxy for calculating this measure is different from the proxies used in the above mentioned studies. In addition, borrowing the explanation offered by Brimble and Hodgson (2007, p. ), “this anomaly may be due to the degree of financial leverage being measured with accounting values based on historical cost rather than fair values and which do not include other important items such as intangibles, off-balance sheet assets and liabilities, and contingencies

The same is true for the interest coverage ratio. Such results come in contradiction to the study of Thompson (1976) and do not confirm the expected inverse relationship between the interest coverage and the systematic risk hypothesized in our survey.

### **Operating Risk Variables**

In terms of operating risk variables, it is observed that the contributor factors in determining market risk are the degree of operating leverage ( $p=0.0001<0.05$ ) and the dividend payout ratio ( $p=0.0101<0.05$ ), which exhibit a negative and positive impact on variations in beta level, correspondingly. Liquidity ( $P=0.6305>0.05$  or  $0.1$ ) is of non statistical significance.

The results show negative influence of the degree of operating leverage on systematic risk. The evidence presented here is not in line with our a priori expectations and the traditional position. It is also opposite to the empirical findings of prior studies (Breen and Lerner, 1973); Lord, 1996; Mandelker and Rhee, 1984; Li and Henderson, 1991; Hamada, 1972; Sudarsanam, 1992; Eleftheriadis and Agorastos, 2002). However, this evidence was supported by Loque and Merville's (1972) and Huffman's (1989) study which suggest that lower levels of fixed cost with simultaneously higher levels of unit variable costs give rise to systematic risk. According to Lev (1974), this inverse relationship may be due to the relative heterogeneity of the industries and according to Huffman (1989) this happens due to either the inclusion of firms with both positive and negative earnings or the diversity in accounting methods used to compute earnings. Our research, although it adds to the existing debate among several studies regarding the sign of DOL's coefficient, it establishes a significant link between the operating decisions of Greek firms and their market risk.

Dividend payout ratio came out to be positively and significantly correlated to systematic risk. Although, this result is contrary to the empirical findings of Melicher (1974) and Breen and Lerner (1973); it is not without explanation. Taking into consideration the proposition of Thompson (1976), the measurement errors contained in the explanatory variables in such studies may account for the unexpected positive sign of the coefficient. These errors stem

from many sources including the use of different accounting methods by firms to measure the same phenomenon. From another point of view, based on the sticky dividend theory and following the explanation offered by Brimble and Hodgson (2007), another rationalization can be the lack of reliance on internally generated capital in favor of external sources together with the relative inflexibility of dividends over time. To conclude, even if the hypothesis related to the negative impact between the dividend payout ratio and the size of beta is not confirmed in this quest, the presence of significant correlation between these two variables implies that dividend payout ratio is an essential predictor of systematic risk in Greek industries.

The findings suggest no significant link between liquidity and the size of beta. The lack of evidence for this operating risk's measure is not consistent with earlier studies (Jensen, 1984; Logue and Merville, 1972; Beaver et al. 1970; Moyer and Chartfield, 1983), but consistent with more current studies in smaller market setting (Brimble and Hodgson, 2007; Lee and Jang, 2007). In summary, the hypothesis of a direct significant relationship between liquidity and market risk either negative or positive is strongly rejected.

Given that two of the three accounting variables of operating risk including the dividend payout ratio and the degree of operating leverage are statistically significant predictors of market risk, the operating risk variables are enough consistent risk performers.

### **Growth Risk Variables**

With reference to growth risk variables, growth variable ( $p=0.0000<0.05$ ) exhibits a positive and significant association with beta, while size ( $p=0.6696>0.1$ ) has no significant impact.

The results agree with those reported by Sudarsanam (1992) and Bowman (1979) and are in line with our expectations that growth is a significant indicator of systematic risk. However size measure is consistent with the studies of Breen and Lerner (1973), Kim et al. (2002), Logue and Merville (1972), Curley et. al (1982) and Sullivan (1982). Even so, the explanatory power of size to the firm's beta is found to be insignificant, which is in line with the theoretical judgment of Bowman (1979), who demonstrated that there is no necessary relationship between size and systematic risk. This is in contrast to what has been expected and hence the hypothesis of a positive correlation between size and systematic risk is not accepted.

### **Profitability**

As to profitability, the coefficient of return on equity capital ( $0.3095>0.1$ ) is positively signed and insignificant suggesting that no correlation exists between profitability and systematic risk. This is in contrast to the empirical findings of Border, Chambliss and Madura (1994), Gu and Kim (2002) and Logue and Merville (1972). However, in those studies profitability was not measured as return on equity capital. Martikainen (1991), who also used return on equity capital, also pinpointed a non significant link.

### Interaction variable

Regarding the interaction variable of DOL and DFL ( $p=0.0000<0.05$ ), its coefficient is positive and different from zero. As to the coefficient's statistical significance, it indicates that fundamental relation exists between systematic risk and financial and operating leverage. The sign is positive as expected and according to theory and in accordance with the findings of Thompson (1976) for 260 US companies. The combined total leverage increases variability of profits and hence affects firm's risk. The degree of operating leverage (DOL) is one measure of operating risk and the degree of financial leverage (DFL) is one measure of financial risk, that both form the firm's total systematic risk. If the management's objective is to decrease the level of the firm's total risk, or at least to keep it stable, high operating leverage can be combined with low financial leverage and the reverse, so that the total level of risk remains unchanged, or as low as possible.

Of particular concerns are the quite low values of the overall  $R^2$  and the adjusted  $R^2$  of the estimated equation.  $R^2$  and adjusted  $R^2$  are equal to 0.078101 and 0.065680 correspondingly. Since corporate financial variables possess significant levels of risk relevant information by explaining only 7.81% of the variation in the OLS/market beta, our results may be very poor. However, according to Eleftheriadis and Agorastos (2002), and Huffman (1989), quite low  $R^2$  values are accepted, given the fact that pooled time series cross sectional data have been used. This is also confirmed by prior studies, which researched the relationship between beta measure and corporate financial variables. At the studies of Lord (1996) and Breen and Lerner (1972), who used the ordinary least square method with time series cross section data, only 8.51% of variation in estimated beta was explained by the regression models for market risk.

To improve the model, we use panel EGLS (cross section weights estimation) method. Exactly the same variables that are significant in the previous test are significant in that test. Regarding the signs of the coefficients, they behave the way that this study suggests in the previous part. However, by adding cross section weights, the explanatory power of the model is substantially improved. Weighted  $R^2$  and adjusted  $R^2$  are equal to 0.153096 and 0.141686, correspondingly.

The equation passes the Ramsey Reset test which implies that we have no form of misspecification in our regression model.

To control for heteroscedasticity, we apply Breusch-Pagan-Godfrey test. Using the Prob  $F(9.668)=0.5215>0.1$ , we accept the null hypothesis of homoskedasticity. So, our model doesn't suffer from heteroscedasticity, which means that the coefficients are unbiased and consistent, but not efficient. Additionally, the White Heteroscedasticity test cannot be applied because of the insufficient number of observations. For autocorrelation the Breusch-Godfrey test is employed suggesting that autocorrelation exists.

### Time sensitivity

To test whether the explanatory power of the fundamental drivers of systematic risk is stable or changes over time, we run two regression models separating our sample into two time dimensions 2001-2004 and 2005-2008, shown in Tables 4 and 5 below:

<i>Variables</i>	<i>coefficient</i>	<i>Standard Error</i>	<i>T-ratio</i>
<i>DOL</i>	-0.296063	0.217777	-1.359481
<i>DFL</i>	-0.204718*	0.099298	-2.061647
<i>DOLDFL</i>	0.039735	0.197144	0.201554
<i>GROWTH</i>	0.035054**	0.019118	1.833537
<i>ICR</i>	1.23E-05	1.15E-05	1.068697
<i>DPR</i>	0.030152	0.033588	0.897691
<i>ROE</i>	0.000883	0.002992	0.295100
<i>SIZE</i>	-0.008329	0.025035	-0.332699
<i>LIG</i>	-0.008437	0.015633	-0.539676
** denotes statistical significance at 10% significance level			
* denotes statistical significance at 5% significance level			

Table 4: the effect of factors on systematic risk in the short term (2001-2005)

<i>Variables</i>	<i>coefficient</i>	<i>Standard Error</i>	<i>T-ratio</i>
<i>DOL</i>	-0.173018	0.162960	-1.061719
<i>DFL</i>	-0.182718*	0.063417	-2.881211
<i>DOLDFL</i>	0.259209*	0.076966	3.367850
<i>GROWTH</i>	0.020646	0.014417	1.432086
<i>DPR</i>	-0.071276**	0.037196	-1.916198
<i>ICR</i>	-0.000192	0.000309	-0.622260
<i>LIG</i>	0.004470	0.018559	0.240859
<i>ROE</i>	0.000463	0.001795	0.257695
<i>SIZE</i>	0.022166	0.017374	1.275825
** denotes statistical significance at 10% significance level			
* denotes statistical significance at 5% significance level			

Table 5: the effect of factors on systematic risk in the short term (2005-2008)

The findings suggest that only financial leverage has a stable significant relationship with systematic risk over time. All other relationships vary by time period. We suspect that many factors contribute to the difference of significant relationships over time. Firstly, the unstable Greek economic activity and the existing market fluctuations can explain the intermittently strong relationship of the systematic risk relevance of independent variables' information over different time periods. Another explanation for the lack of significant relationships among different periods offered by Melicher (1974) is that the estimated betas used as a quantitative measure of systematic risk may not reflect true betas due to potential estimation

errors. Lastly, basic changes in industries' structure also may account for some of the differences in relationships by time period. To conclude, the examined relations are time sensitive and hence our hypothesis is strongly supported.

In the moving estimation period from 2001 to 2004, significant relationships are found between estimated betas and a) the degree of financial leverage ( $p=0.0399<0.05$  or  $0.1$ ); and b) the firm's growth ( $p=0.0674<0.1$ ). The growth and the financial leverage variables exhibit a positive and negative correlation, correspondingly. Of essential note is that neither the interaction variable of DOL and DFL ( $p=0.8404>0.1$ ) nor the interest coverage ratio ( $p=0.2858>0.1$ ) are statistically significant. Finally, concerning dividend payout ratio ( $p=0.3699>0.1$ ), size ( $p=0.7395>0.1$ ), liquidity ( $p=0.5897>0.1$ ) and return on equity capital ( $p=0.07681>0.1$ ), all are of non statistical significance. A summary of the regression results in the short term period from 2001 to 2004 is provided in the following table:

### Summary and Conclusions

This study intends to specify the impact of operating and financial risk on the firm's systematic risk for a sample of Greek companies listed in the Athens Stock Exchange.

Although this issue is extensively researched in other countries, a very small number of academic papers exist on the relationship between systematic risk and DOL, DFL and other variables, in Greece. There is minimal work on this subject for Greece especially in the last 10 years. The present study investigates the relationship of systematic risk and the factors related to it for Greek firms in the Athens Stock Exchange after Greece' entrance in the Monetary Union.

The systematic risk is measured by the beta coefficient as determined by the market model. The operating and financial risks were measured by the degrees of operating and financial leverage respectively. Moreover, in an effort to extend the Greek academic literature, we examined the potential effect of profitability, liquidity, dividend payout, size and growth risk on a company's estimated beta. The final findings of our research contribute to the understanding of the relationship of systematic risk and the contributing factors related to it for Greek firms in the ASE, after Greece' s entrance in the Monetary Union.

The empirical findings suggest a significant negative impact of operating and financial leverage on systematic risk. Our findings agree with those of Eleftheriadis and Agorastos (2002), on Greek textile firms. They also propose a negative impact of the degree of financial leverage on the beta level. However, our results do not agree with those from many studies abroad.

Possible reasons for the absence of a linear relationship between the beta coefficient and DOL, the beta and DFL and between DOL and DFL could be that for the Greek market environment and conditions the operating and financial risk of a firm are affected by other variables also, rather than the degrees of operating and financial leverage respectively, as



well as the ratios of fixed to total assets, and total debt to total assets respectively. Also, according to Lev (1974), this inverse relationship may be due to the relative heterogeneity of the industries and according to Huffman (1989) this happens due to either the inclusion of firms with both positive and negative earnings or the diversity in accounting methods used to compute earnings, both of which hold for the firms in our sample.

Furthermore, it could also be that the beta coefficient that was determined based on the market model, is not well specified due to the proxy we use for the market, the General Index of the Athens Stock Exchange. This index, according to Alexakis and Xanthakis (1995) is not a good representation of the Greek stock market portfolio. Hence the problems of not being able to verify the theory and our testable hypotheses on Greek data could be derived from the misspecification of the Greek market portfolio that affects the variable representing a firm's systematic risk, the beta coefficient.

The combined or total operating leverage ( $DOP \cdot DFL$ ) has been found to have a positive and significant correlation with systematic risk, in line with theory and other studies. This is also an indication of the trade off that exists between financial and operational leverage and that the relation between them is negative.

The study contributes essentially to the Greek literature by finding other variables as significant determinants of systematic in the Greek market. The results of those other variables are only compared with those of empirical studies abroad, since they cannot be directly compared with corresponding previous studies in Greece. Such significant variables are: firm growth, ability to repay interest obligations and dividend policy.

Interest coverage ratio and dividend payout ratio were found to correlate positively and significantly with systematic risk, as opposed to theory and other empirical findings. Based on the sticky dividend theory and the explanation offered by Brimble and Hodgson (2007), the positive sign of the dividend payout ratio can be attributed to the lack of reliance on internally generated capital in favor of external sources together with the relative inflexibility of dividends over time, which can increase the firm risk.

Liquidity as proxy of operating risk and profitability do not explain any portion of the variation in beta. The measure of growth appears significant and positive to beta in the Greek market, while systematic risk does not appear to be a function of size.

The study also assesses that the aforementioned relationships are time sensitive with the exception of DFL which has been found negative and significant in all models, indicating that the relationship is not time sensitive.

### **Implications of the study**

Financial managers may deal with all those variables in a way that systematic risk can be significantly reduced so as the market value of the business securities to be increased.

The study suggests that analysts, financial specialists and academic researchers should take into consideration the degree of effect that growth, operating, investing and financing decisions have on systematic risk. Having in mind the current adverse circumstances in the business world and the recent economic crisis, the accurate knowledge of the microeconomic determinants of systematic risk can save Greek industries from many potential problems. To effectively manage the non diversifiable market risk, the firms' managers and executives have to take special care of the growth measure, the two types of leverage and the interest coverage and dividend payout ratios that have been pinpointed as significant predictors of systematic risk in the Greek market.

### **Limitations and Future Research**

Although some of our final findings are not satisfactory and some robustness tests are not passed, this study is a contribution to the Greek relevant literature providing hints on how further empirical work should proceed.

Future research should include a large number of firms from all industry sectors and/or by separate industry sector so that we have more homogeneity in our data concerning firm performance.

For the calculation of beta other indexes should be tested such as the FTSE 20 to include larger firms and with positive earnings.

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## Appendix

<i>Dependent Variable: BETA</i>				
<i>Method: Panel Least Squares</i>				
<i>Sample: 2001 2008</i>				
<i>Periods included: 8</i>				
<i>Cross-sections included: 133</i>				
<i>Total panel (unbalanced) observations: 678</i>				
<b>Variable</b>	<b>Coefficient</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>Prob.</b>
C	0.956792	0.328412	2.913393	0.0037
DOL	-0.615846	0.151116	-4.075313	0.0001
DFL	-0.357082	0.064596	-5.527947	0.0000
DOLDFL	0.399394	0.088112	4.532814	0.0000
GROWTH	0.036621	0.014716	2.488499	0.0131
ICR	1.93E-05	1.07E-05	1.802521	0.0719
DPR	0.071669	0.027772	2.580624	0.0101
LIG	-0.006385	0.013265	-0.481294	0.6305
SIZE	-0.007942	0.018607	-0.426826	0.6696
ROE	0.002114	0.002079	1.017108	0.3095
<i>R-squared</i>	0.078101	<i>Mean dependent var</i>		0.380645
<i>Adjusted R-squared</i>	0.065680	<i>S.D. dependent var</i>		0.519912
<i>S.E. of regression</i>	0.502548	<i>Akaike info criterion</i>		1.476390
<i>Sum squared resid</i>	168.7067	<i>Schwarz criterion</i>		1.543044
<i>Log likelihood</i>	-490.4963	<i>Hannan-Quinn criter.</i>		1.502194
<i>F-statistic</i>	6.287881	<i>Durbin-Watson stat</i>		0.822943
<i>Prob(F-statistic)</i>	0.000000			

Table E-views 1: Panel Least Squares estimation

<i>Dependent Variable: BETA</i>				
<i>Method: Least Squares</i>				
<i>Sample (adjusted): 2 1101</i>				
<i>Included observations: 678 after adjustments</i>				
<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Prob.</i>
C	0.956793	0.328411	2.913396	0.0037
DOL	-0.615846	0.151116	-4.075313	0.0001
DFL	-0.357082	0.064596	-5.527944	0.0000
DOLDFL	0.399394	0.088112	4.532810	0.0000
DPR	0.071669	0.027772	2.580620	0.0101
ICR	1.93E-05	1.07E-05	1.802522	0.0719
LIG	-0.006384	0.013265	-0.481291	0.6305
GROWTH	0.036621	0.014716	2.488498	0.0131
ROE	0.002114	0.002079	1.017103	0.3095
SIZE	-0.007942	0.018607	-0.426829	0.6696
<i>R-squared</i>	0.078100	<i>Mean dependent var</i>		0.380645
<i>Adjusted R-squared</i>	0.065680	<i>S.D. dependent var</i>		0.519912
<i>S.E. of regression</i>	0.502548	<i>Akaike info criterion</i>		1.476390
<i>Sum squared resid</i>	168.7067	<i>Schwarz criterion</i>		1.543044
<i>Log likelihood</i>	-490.4962	<i>Hannan-Quinn criter.</i>		1.502194
<i>F-statistic</i>	6.287877	<i>Durbin-Watson stat</i>		1.124028
<i>Prob(F-statistic)</i>	0.000000			

Table E-views 2: Ordinary Least Squares estimation

## STRATEGIC BRANDING OF WINE FIRMS - THE CASE OF CAMPANIA REGION, ITALY

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### **Abstract**

Over the last few years, the wine industry has been undergoing a process of accelerated change, consequent to the constantly changing wine geography, both from the demand and the supply sides. This research is based on the work of Rossi et al. (2011) and aims to develop a preliminary prescriptive strategic branding framework for the Campania wine firms, Italy. The paper expands on primary research findings, combining them with secondary and theoretical research findings to achieve four main objectives: (1) to understand the industry's local and international competitive situation (2) to identify the role and potentialities of branding in competitive terms, (3) to identify the underlying factors of consumer behavior in relation to wine branding, and (4) to develop a preliminary prescriptive strategic branding framework for the Campania wine firms, with generic application and value. The value of the paper stems from the fact that practically no research exists on the subject and this work provides a solid and comprehensive theoretical foundation for further research to build on. Additionally, this research studies the subject, not simply from the functional business point of view, but also through the identification of true underlying consumer behavior factors. The limitations of the paper are the result of its very nature: it is a largely conceptual paper. Empirical research is therefore needed to test and validate the essentially preliminary framework developed and the (well-based) assumptions made towards its development.

**Keywords:** Strategic Branding, Competitive Strategy, Marketing, Wine, Italy

### **Introduction – The Wine Industry and Market**

Over the past few years, the wine industry and market have been changing at a pace that has left many wine firms disillusioned and unable to adapt to a constantly modified environment. The Organisation Internationale de la Vigne et du Vin (OIV) recorded a decreasing global wine production over the mid-late 2000-10 decade, with over 260 million hectoliters being produced annually; 61% of which in by European Union countries,

predominantly France, Italy and Spain. Italy, along with France and ahead of Spain, is the leading world producer with a market share of 17.5% of world production and 29% of European production.

The primary industry transformation of the past few years though, relates to the wine-production evolution of countries that do not have a corresponding historical wine-making tradition. These are the so-called 'New World Countries' (Australia, New Zealand, South Africa, Argentina, United States and Chile), where there are lots of large size firms that have achieved good performance and high market shares, while applying intensive production techniques and targeted marketing policies.

The value of Italian wine production in the latter part of the decade is estimated to exceed €8.3bn and apparent consumption to exceed €5.2bn. The Denominazione di Origine Controllata e Denominazione di Origine Controllata e Garantita (DOC-DOCG48) wine production share is also in decline over the latter part of the decade and the estimates of ISTAT49 indicate that it represented only 33% of total production. Another 28% of production is represented by Indicazione Geografica Tipica (IGT50) wines.

A significant part of country's production is exported, with reduction of prices and augmentation of volumes being the reasons of a positive performance of Italian foreign trade. In the latter part of the decade sparkling wines, DOC and DOCG wines accounted for over 50% of the income from exports (compared to well over 60% in the early years of the decade).

This changing environment has naturally enhanced competition and many firms made significant structural and competitive strategy changes; gradually forming three distinct types of wine firms:

- global enterprises, active in all segments of the beverage industry;
- large national wine enterprises, focused on wine production and operating in an international context;

#### **SMEs with niche strategies.**

The above considerations are largely true for the Campania wine sector as well, which is additionally characterized by its comparatively high number of micro-enterprises<sup>51</sup>. Most Campania region wine firms are incapable of realizing an effective and efficient strategic

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*48 Italian wines which are grown in certain specified areas and which conform to certain regulations may be styled DOC (Denominazione di Origine Controllata). The classification DOCG (Denominazione di Origine controllata e Garantita) is awarded to DOC wines of particular quality. Wine must conform to the DOC criteria for at least five years before they can be classified as DOCG.*

*49 ISTAT is the Italian national statistical institute.*

*50 IGT is the second of four classifications of wine recognized by Italian government. IGT wines are labeled with the locality of their creation, but do not meet the requirements of the stricter DOC or DOCG designations. In wine terms, it is considered the rough Italian equivalent of the French vin de pays designation.*

*51 Micro-enterprises are all enterprises with less than 10 employees and turnover less than 2 million euros.*



marketing process, adaptable to a changing environment. This has had an evident negative reflection on performance. However, in this regional context there are also successful firms, able to develop and implement competitive strategies adapted to sector change and capable of obtaining significant performance.

## **Research Methodology**

### **Research Aims and Objectives**

This research is based on the work of Rossi et al. (2011) and aims to significantly expand on its findings towards the development a Preliminary Prescriptive Strategic Branding Framework for the Campania wine firms, Italy.

More specifically, the paper expands on existing primary research findings, combining them with extensive secondary and theoretical research findings to achieve four main objectives:

- (1) to understand the industry's local and international competitive situation
- (2) to identify the role and potentialities of branding in competitive terms,
- (3) to identify the underlying factors of consumer behavior in relation to wine branding, and
- (4) to develop a Preliminary Prescriptive Strategic Branding Framework for the Campania wine firms, with generic application and value.

### **Research Value and limitations**

The value of the paper stems from the fact that practically no research exists on the subject and this work provides a solid and comprehensive theoretical foundation for further research to build on. Additionally, this research studies the subject, not simply from the functional business point of view, but also through the identification of true underlying consumer behavior factors.

The above provide a valuable theoretical basis for empirical development and practical application. At the same time, this research provides the context of prescribed actions and processes, allowing for its adaptation according to individual-firm strategy. Finally, the provision of both contextual factors/forces as well as underlying consumer behavior motivators allows for more generic adoption of the research findings to other regions, countries and even industries (though only as a theoretical basis and after adaptation to specific conditions).

The limitations of the paper are a consequence of its very nature: it is a largely conceptual paper. Empirical research is therefore needed to test and validate the essentially preliminary framework developed and the (well-based) assumptions made towards its development.

## Literature Review

### Wine Marketing and Branding

Branding is crucial in any industry, company or product and its importance is growing for the wine industry. According to David Higgins, Brown Forman Beverages Worldwide Wine Group President, “in the wine business people do not understand the need to build brands. That will become more and more of a problem among mid size wineries” (Westling, 2001). This research’s findings show his predictions to have been realised.

The wine industry is extremely fragmented and has a myriad of brands, which creates a problem in brand recognition and complicates the sales process (Andrew, 2002). Consolidation of the industry has helped to improve margins and increase the sales of the leading wine companies, but it has also increased the number of brands that have to be managed. It is considerably more difficult for a sales team to push 20 different brands (each consisting of multiple varietals) into the distribution network than ten or five (Wine Business Monthly, 2002). This is becoming even more difficult and challenging as companies and sales teams attempt to avoid cannibalisation among the different brands that they produce and distribute.

Many wineries are witnessing a slowdown, but this is not true of them all. Strong wineries possess strong brand names and strong brands will continue to enjoy robust growth. Building a brand is very important in a wine market where the consumer can be overwhelmed by too many choices. By having a strong brand a company can enjoy cost effective marketing campaigns, greater trade leverage, higher margins, ease of line extension, a better competitive position and more price flexibility. A successful brand also has the potential to generate consumer loyalty since it provides a level of quality, and trust.

In international markets, the importance of branding in the wine industry is growing. For the first time in 2000, marketing’s annual UK Biggest Brand report included three wine brands among its top 20 growers (Marsh, 2001). It is therefore no surprise that marketing budgets in the category of brand building are increasing drastically, at a time that consumption has fallen sharply in most major wine producing countries in the last three decades.

The internationalisation of wine companies is also significant and remarkable. As local and national corporations mature and their market growth slows or saturates, they increasingly look abroad to increase sales and earnings. They also look to mergers, acquisitions, joint ventures and other strategic arrangements as attractive ways to grow and penetrate new markets. Because of economies of scale, a large corporation generally has access to cheaper costs of goods than smaller companies. Therefore, when a large wine company acquires a smaller winery, it can incorporate these cheaper costs into the winery's future operations. Other cost savings can come in the form of headcount reductions as overlapping sales or

accounting positions are eliminated. Cost savings such as these increase the earning potential of the small winery over what it could have achieved independently. While often difficult to predict, revenue synergies typically dictate the ultimate success or failure of a merger or acquisition. Corporations achieve these types of synergies by leveraging the strength of an existing distribution network and sales team with a newly acquired brand (and vice versa).

Spreading sales across different countries and different product categories creates diversification and reduces business risk. Constellation Brands, for example, has carefully filled out its wine portfolio with brands ranging from the table wine category to the luxury category with distribution in both the on- and off-premise channels in the US and the United Kingdom. This minimizes business risk because no single product or geographic region is responsible for a majority of the company's revenues. Expanding operations abroad also allows a corporation to take advantage of certain macro-economic factors such as exchange rates e.g. Australians' market share gains in the US owing largely to the fact that one US dollar had equalled about two Australian dollars for the last several years.

In the near future, it is expected that there will be a consolidation in the premium wine categories, since (a) analysts predict that this segment of the market will continue to experience the best growth rates relative to the industry as a whole, and (b) this segment remains fragmented with the top wineries controlling a relatively small percentage of the total category.

Additional factors must be taken into account regarding wine branding though, such as the practical limitations of a wine brand aiming for global market share and to sustain its position over time. To do this, it must have consistent quality and flavour, however, grapes constitute the key ingredient in wine making and have a different flavour depending on the area in which they are grown. A global wine label will ultimately require an enormous supply of grapes spread over many regions. Industry regulations though in countries such as France restrict wine producers from drawing grapes and bulk wine from multiple regions for use in a single brand.

### **Small Firm Marketing and Branding**

For the development of a framework for consumer-centred strategic branding, it is necessary to draw on past research relating to peripheral marketing areas as well. Specifically, small business theories, and more particularly those relating to strategic branding, marketing/planning, marketing communications and internationalisation. The choice of small business theories is appropriate due to the very nature of most wine businesses, while the particular subjects were the ones found to be most closely related to the research's focus. All were investigated in the context of contemporary developed country consumer markets and their corresponding behaviour.

Longenecker et al (2003) present marketing communications especially for small businesses and conclude that special emphasis is given to personal communication methods where the

market is small and/or when the businesses have a limited number of customers/audiences. Secondly, small businesses are limited in their design of the marketing mix by the limits of their resources. Lastly, consequent to budget and/or target market limitations, marketing communications by small businesses often need to be especially focused. Said (2000) additionally notes a lack of proper marketing practices, and a market competitive situation that is becoming more vulnerable to liberal trends.

Reedy and Schullo (2004) through their work on electronic marketing, demonstrate how it allows small businesses to undertake tasks and target segments that the past left out of reach. The marketing communications implications are multiple with the most important one being again, a potential need for small businesses to fit strategy to marketing communications means rather than the opposite. This requires a redefinition at a strategic level of their marketing goals and processes with marketing communications as both a primary instrument and cause.

Thrassou and Vrontis (2006), through the interrelation and integration of work of Yisa et al. (1996), McArthur and Griffin (1997), Kitchen (2001), Pickton and Broderick (2001), Smith and Taylor (2002); Fill (2002), Reedy and Schullo (2004) and Thrassou (2005), develop a useful (and partly transferable to wine companies) integrated marketing communications model for small businesses. They also pinpoint a number of attributes that largely define small businesses' marketing communications, some of which have a direct or indirect application to wine companies. Specifically 'focus' is noted as a primary means to achieving stronger and more effective communication, and that electronic marketing communications and word-of-mouth should be at the same time tools but also targets of marketing communications. To assure a match between expectations and perceived service quality, marketing communications should manage service promises, manage customer expectations, improve customer education and manage internal marketing communication. Finally, but most importantly, although marketing communications is a process normally within the wider marketing strategy, for small businesses strategy, rather than dictating marketing communications, it may be developed according to marketing communications competencies, resources and capabilities.

Thrassou and Vrontis (2008) and Vrontis and Thrassou (2007) focus on internationalization of small businesses and reach a number of conclusions. The ones that most relate to wine stipulate the need for collective action by the competing local brands towards international market penetration, brand recognition and country-of-origin perception management. The findings also stress the importance of government support, but also a change of attitude by the producers; both in terms of functional strategic marketing management, but also in terms of vision, goals and self-perception.

An interesting perspective on branding stems from the increasing value of intangible, 'higher order' product attributes in developed countries; and the consequently increasing

number of elements adopted that relate to services' marketing theory. Lovelock and Wright (2002) in fact expand the notion of tangibility to include also "mental" evidence e.g. symbols. Zeithaml et al. (2006) identify the key reasons for communication problems as being: inadequate management of promises, inadequate management of customer expectations, inadequate customer education, and inadequate internal marketing communications. Earlier, McArthur and Griffin (1997) identified the need to respect the differences of various types of marketers in planning marketing communication activities. Thrassou and Vrontis (2006) link the intangibility and complexity of contemporary consumer behaviour with the increased need for customer education and consultation. Furthermore, they observe through these consumer behaviour attributes an opportunity for businesses to affect not only consumer knowledge, but also elements such as consumer attitudes, beliefs and feelings towards a brand. Marketing communications are viewed as the means of both receiving the necessary information and transmitting it successfully towards controlling these elements.

The above indicate the imperative of a marketing communications mix design in parallel to the implementation of the methods and analyses that will allow the measurement and understanding of the above elements. Of interest to this research is also the importance placed on, and the various means of, stimulating word-of-mouth and targeting of opinion leaders. Similar conclusions are drawn through the review of work by Schiffman and Kanuk (2004), Hawkins et al (2004) and Solomon (2007).

Finally, Thrassou and Vrontis (2006), bring together the work of various authors on the subject and combine it with their own primary data findings to develop an integrated marketing communications model for small businesses, relying also on the work of Kitchen (2001), Fill (2002), Pickton and Broderick (2001), and Smith and Taylor (2002). Their work corroborates the need to address also the structure and consistency of the competitive environment (SME concentration, competition on market share Vs total market growth etc), the need to consider collective marketing communications through collaborations, and the consideration of adapting strategy to marketing communications capabilities.

Perhaps the single most important element of change within the new marketing communications framework is electronic marketing. Reedy and Schullo (2004) find that with the effort for gaining competitive advantage shifted towards non-price factors, new electronic forms of communication and distribution channels are invaluable. The future of customer service is multi-channel and its benefits plentiful: it cuts costs, it develops deeper relationships with customers, it increases sales and it reduces risk by spreading it over multiple channels.

### **Developed Markets' Marketing and Branding**

With the marketing environment changing, at an increasing pace, we have to accept that both consumers and businesses will continue to live through times of change, with occasional interruptions of stability. Successful businesses will therefore be the ones that accept that

turbulence, living through it and for it. Vrontis and Thrassou (2007) research the dawning of a new marketing era, with their analysis outgrowing the abstract philosophical context to touch upon a number of practical business issues. They show the implications for business marketing communications to be crucial. The new conditions shift marketing communications' target area from the consumer's environment to the consumer's mind; from the external to the internal; from the tangible to the intangible. 'Reality' is increasingly shadowed by 'perception' with the latter being predominant for a growing number of product categories.

The above have a profound effect on marketing communications' *practice*: a transference of focus from 'function' (awareness, knowledge, information, etc) to 'perception'. Consequently, 'perception management' arises as a primary marketing communication process, and 'branding' as its primary vehicle. This new concept of 'Perception Management' is then shown to be the primary integrated marketing communications process and 'Branding' its primary vehicle. Finally, instead of a number of potential integrated marketing communications aims (improved service, customer education etc) a single 'terminal' aim is provided: a shift of focus of marketing communications from the products and their attributes to the product experience, the product intangibles and in essence product higher-order value additions.

## **Secondary Research Results – A Local and International Wine Industry Analysis**

The secondary data presented in this section have largely been obtained from the first part of this research (see Rossi et al., 2011). Towards comprehending the competitive conditions in the wine sector, they deemed it necessary to also determine the sector attractiveness level and to analyze the performance of the leading international and Italian wine firms.

### **The Attractiveness Sector**

A fundamental premise of sector analysis is that industry profitability levels are not a historical accident, nor the result of specific influences onto a sector, but determined by the very structural characteristics of the sector. A widely acceptable historical view is Porter's position that sector attractiveness is determined by the profitability that firms can achieve in the sector and usually this is measured with return on capital invested (ROI) (Grant, 1994).

A sector has a catalytic role on its constituent firms, when it has the potential to achieve a ROI greater than the capital cost. The Italian wine industry has a good rate of ROI (6.3%), however this is lower than for beverages firms (9.2%) and Italian industrial firms (13.0%). This gap may be explained by the hyper-competition that characterizes this sector at national and global levels.

If additionally we consider the effect of entry and exit barriers (Porter, 1980) it is possible to understand the degree of competitive pressure in the wine sector. Also, the barriers are

different mechanisms that have correlations, with the conjoint presence giving different combinations of risk/profitability.

The wine sector presents a low and risky profitability because the entry barriers are low. The new global industry players (New World Producers) are a demonstration of how low these barriers are and how they cannot shield firms present in the sector or ensure anything above moderately satisfactory profitability. At the same time, high exit barriers don't allow disinvestment, as the wine sector requires specific fixed initial investments, thus disallowing the elimination of marginal producers, that might have otherwise 'balanced' the forces within the competitive arena

### Internationally Listed Wine Companies

The Wine Industry Survey has realized a performance analysis of aggregate accounts of a panel of nine international groups, with turnover above €200m, all of which make and/or sell wine and are listed on global stock markets. The results cover the period from 2001 to 2008 (Table 1).

<i>Company</i>	<i>Country</i>	<i>Financial year ends</i>	<i>Turnover (in € '000)</i>	<i>Wine as % of turnover</i>	<i>Export as % of turnover</i>
<i>Foster's Group</i>	<i>Australia</i>	<i>30 Jun 2007</i>	<i>2.718.864</i>	<i>51,5</i>	<i>(1)36,8</i>
<i>Constellation Brands</i>	<i>U.S.</i>	<i>28 Feb 2008</i>	<i>2.563.005</i>	<i>89,0</i>	<i>46,2</i>
<i>Distell Group</i>	<i>S. Africa</i>	<i>30 Jun 2007</i>	<i>621.273</i>	<i>n.d.</i>	<i>18,9</i>
<i>Vina Conchay Toro</i>	<i>Chile</i>	<i>31 Dec 2007</i>	<i>389.874</i>	<i>100,0</i>	<i>80,5</i>
<i>Boizel Chanoine Champagne</i>	<i>France</i>	<i>31 Dec 2007</i>	<i>359.420</i>	<i>100,0</i>	<i>39,0</i>
<i>Vrnaken Pommery</i>	<i>France</i>	<i>31 Dec 2007</i>	<i>286.830</i>	<i>100,0</i>	<i>43,7</i>
<i>Sektkelleri Schloss</i>	<i>Germany</i>	<i>30 Jun 2007</i>	<i>281.327</i>	<i>79,9</i>	<i>61,3</i>
<i>Yanatai Changyu Pionner Wine</i>	<i>China</i>	<i>31 Dec 2007</i>	<i>253.912</i>	<i>78,8</i>	<i>&lt;10</i>
<i>Laurent Terrier</i>	<i>France</i>	<i>31 Mar 2008</i>	<i>249.430</i>	<i>100,0</i>	<i>67,2</i>
<i>TOTAL</i>			<i>7.723.935</i>	<i>69,8</i>	<i>42,0</i>
<i>Does not include Asia and the Pacific, which are considered as home country</i>					

Table 1. International listed wine companies

Source: Data Processed by Ufficio Studi Mediobanca, 2009

It should additionally be noted that there was a reduction in turnover, which declined by 10.3% from €8.6bn to €7.7bn in the last year<sup>52</sup>. The most dynamic sales growth shown was by the Chinese group Yantai, which achieved a 36% increase on the back of strong growth in domestic demand (with the Chinese market accounting for over 90% of the company's total

<sup>52</sup> This contraction was entirely attributable to Constellation which deconsolidated some of its activities in 2007 which reported 2006 sales amounting to €1.3bn.

sales), followed by Chilean wine-maker Vina Concha y Toro which reported a 23.3% increase, and for which exports, which represented 81% of turnover, were up 28% in terms of volumes, with sales to Europe and Asian in particular<sup>53</sup>.

In the last year the main earnings margins (expressed as a percentage of turnover), were systematically higher than those for the previous year. Net profit halved as a percentage of sales, however, from 12.9% to 5.9%. The most profitable company, measured by net profit as a percentage of turnover, was Yantai with 23.3%, followed by Foster's at similar levels (21.2%). The Return On Equity for the last year for the aggregate was 7.5%; down sharply from the 21.3% posted in the previous year due to the one-off charges taken by constellation; Yantai stood out also in terms of average of ROE with 19%, behind only Foster's (21%) and ahead of Distell (17%) and Vina Concha y Toro (14.3%). Net equity proved to be smaller than borrowings, with the net worth/borrowings ratio standing at 88.9%, the lowest in the entire period and far from the high of 126% reached in 2002. Still, net equity stripped of intangible assets did not even reach one-seventh of total outstanding borrowings, representing just 13.3% of them in percentage terms, down 24 points from 2001, and here again recording a low for the whole period<sup>54</sup>.

### Leading Italian Wine-makers

Owing to ISTAT's (Italian national statistical institute) particular analysis methods and the structure of domestic wine sector, it is not possible to have accurate data on Italian wine-makers. However, some interesting data do emerge from the Ufficio Studi Mediobanca (2009), carried out on 97 main Italian companies operating in the wine sector, and which represent 48% of the national wine production and 53% of total exports<sup>55</sup>.

The top five Italian wine-makers by turnover include four co-operatives (Table 2).

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<sup>53</sup> This information is important to understand how different strategic choices are possible to pursuit a sustainable competitive advantage. In fact the success is related to analysis of internal and external factors, of market trends and opportunities in the new competitive environment.

<sup>54</sup> Mediobanca (2009), *Wine industry survey*, p. 14.

<sup>55</sup> Mediobanca (2009), *Wine industry survey*, p. 5.



	<i>Registered Office</i>	<i>Turnover 2008 (€ m)</i>	<i>Ownership Structure</i>
<i>GIV – Gruppo Italiano Vini</i>	<i>Calmasino (VR)</i>	<i>288,0</i>	<i>Co-operative</i>
<i>CAVIRO</i>	<i>Faenza (RA)</i>	<i>281,3</i>	<i>Co-operative</i>
<i>CAVIT (*)</i>	<i>Ravina (TN)</i>	<i>154,8</i>	<i>Co-operative</i>
<i>Mezzacorona (*)</i>	<i>Mezzacorona (TN)</i>	<i>142,5</i>	<i>Co-operative</i>
<i>P. Antinori</i>	<i>Firenze</i>	<i>138,3</i>	<i>Family-owned<sup>56</sup></i>
<i>(*)Cavit's financial year ends on 31 May and Mezzacorona's on 31 August.</i>			

Table 2. Top Five Italian Wine-Makers By Turnover

Source: Data Processed by Ufficio Studi Mediobanca, 2009

The first important indicator is sales growth rate, which in the last year increased by 6.6%. The co-operative companies were slightly less dynamic, registering an increase of 4.7%, whereas the other Italian companies were more so, with a growth of 6.9%. The four non-Italian companies reported a strong increase, of 23%. The 97 companies under review here, posted an average turnover of €41.6m, with an average headcount of just over one hundred staff. The Return on Investment came in at 6.3%, down 0.7 percentage points versus the previous year and returning to 2004-2005 levels, whereas ROE diminished from 6.0% to 4.1% (2.5 points below the high recorded in 2005). These indicators' performance was driven by trends in operating costs and taxation: ROI suffered from the decrease in margins and was hit by the new increase in capital invested, driven by substantial capital spending (€242m, near the 2004-2005 average figure, following the high recorded in 2006); whereas ROE was reduced by higher labor costs and interest expense, as well as by the higher incidence of tax rate.

The breakdown of the companies covered in this survey, by ownership structure, shows that the cooperatives and non-Italian-owned companies were the least profitable in terms of Return On Equity: the former, for obvious reasons, do not offer many of the upstream phases in the production filière (shareholders produce grapes and wine, which are transferred to co-operative firms for further processing and sale), whereas the latter have limited commercial operations, being structured mainly through suppliers to non-Italian sales networks controlled by their parent companies.

The financial structure is also uneven: given that net equity chiefly consists of those fixed assets, which are typical of the upstream phases of the wine-making filière (i.e. land and property), the co-operatives appear to be relatively under-capitalized: the net worth/borrowing ratio standing at about 59%.

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<sup>56</sup> A family-owned firm is a firm in which one or more members of one or more families have a significant ownership interest and significant commitments toward the business' overall well-being.

The 97 companies at the end of the above-presented period had capital invested equal to approximately €4.4bn, but the survey shows that the companies' relationship with financial markets continues to be negligible; only six out of the 97 companies included in this survey have an interest in the stock market, and that only indirectly.

The above show that competitive success is not linked to size/structure. In fact specialization and flexibility appear to represent the right way to obtain significant profitability. Success is shown to be linked to an entrepreneurial ability to find unexplored market opportunities and to set up and realize strategies able to exploit the typical Italian wines. The key to success, in short appears to lie within strategic and marketing approaches, rather than managerial, technical or structural ones (without the latter being inconsequential of course).

### **The Campania wine sector**

Campania is a region with a wine tradition of ancient origins and it is one of the first and most important centers of settlement, cultivation and study of wine in the world. The most dedicated area in Campania is Avellino's province, but Benevento's province is the area that has the largest extension of vineyards with 11.226 hectares, followed by Avellino (7.519 hectares), Salerno (6.079), Caserta (5.135) and Naples (2.557) (ISTAT, 2003).

The production structure is composed by less than 2.000 firms that are concentrated in Avellino and Benevento (90%) (Pomarici et al., 2006). The enterprises that produce wine only for self-consumption, with a production capacity of less than 100 hectoliters, represent the majority of Campania wine firms (84%). The artisan enterprises, that produce between 100 and 500 hl, are about 370 and represent 9% of the total; while medium and large enterprises (that produce more than 500 hl are only 140 and represent 7% of the total (Pomarici et al., 2006). 61% of the medium-large firms are agricultural, 35% industrial and only 4% are co-operative. In Benevento's province there are four of the six regional co-operative firms, the other two being located in the Avellino and Salerno provinces.

In Campania there are 325 firms with commercial orientation. A significant number of these firms sell their wine to other firms; however there is a contraction of this phenomenon. In fact the enterprises that commercialize wine with their own brand are 236, with a growth of 34% between 2003 and 2006 alone. This is another indication of the dynamically changing situation and Campania is the only region of South Italy that has seen such a remarkable increase.

The territorial distribution of firms that produce wine under their own brand, places first Avellino (28%), followed by Naples (25%), Benevento (23%), Caserta (14%) and Salerno (10%). Most of these firms have a production between 100,000 and 1,000,000 bottles (Pomarici et al., 2006). The regional classification in terms of productive capacity, finds in the first five places four co-operatives firms; three of which are located in the Benevento province (Table 3).

These firms account for 40% of the Benevento province production capacity, while the Avellino province is home to the three largest private enterprises.

<i>Companies</i>	<i>Registered office</i>	<i>Ownership Structure</i>
<i>La Guardiense e Janare</i>	<i>Guardia Sanframondi (BN)</i>	<i>Co-operative</i>
<i>Cantina Sociale di Solopaca</i>	<i>Solopaca (BN)</i>	<i>Co-operative</i>
<i>Vinicola del Sannio</i>	<i>Castelvenere (BN)</i>	<i>Family-owned</i>
<i>Cantina del Taburno</i>	<i>Foglianise (BN)</i>	<i>Co-operative</i>
<i>Val Calore</i>	<i>Castel San Lorenzo (SA)</i>	<i>Co-operative</i>
<i>Matilde Zasso</i>	<i>Pozzuoli (NA)</i>	<i>Family-owned</i>
<i>Feudi di San Gregorio</i>	<i>Sorbo Serpico (AV)</i>	<i>Family-owned</i>
<i>Mastroberardino</i>	<i>Atripalda (AV)</i>	<i>Family-owned</i>
<i>La Vinicola del Titerno</i>	<i>Massa di Faicchio (BN)</i>	<i>Family-owned</i>
<i>Grotta del Sole</i>	<i>Quarto (NA)</i>	<i>Family-owned</i>
<i>Antica Hirpinia</i>	<i>Taurasi (AV)</i>	<i>Co-operative</i>
<i>Colli Irpini Monte Sole</i>	<i>Montefusco (AV)</i>	<i>Family-owned</i>
<i>La Vinicola del Vecchio</i>	<i>Telese Terme (BN)</i>	<i>Family-owned</i>
<i>Cantine Federiciane</i>	<i>Marano (NA)</i>	<i>Family-owned</i>
<i>Romano Foravate</i>	<i>Ottaviano (NA)</i>	<i>Family-owned</i>

*Table 3 Top Fifteen Campania Wine-Makers By Productive Capacity*

*Source: data processed by Pomarici et al., 2006*

### **Secondary Research Results – Campania Region Wine Industry Strategic Issues**

The Data presented in this section have largely been obtained from the findings of the first part of this research (see Rossi et al., 2011). The research has combined primary data with secondary ones to reach some specific findings regarding the Campania region wine firms. These findings relate to industry, strategic, marketing and structural issues. Their interrelation and interpretation substantially and practically assist researchers and practitioners in their work at both the industry and the organizational level.

1. The research has demonstrated various fundamental strategic problems of Campania firms, relating to competition, decision making and other factors. However, it was also found that some firms are able to implement winning strategies, objectively measured by performance data.
2. The single most important characteristic of these successful firms lies in their marketing approach and specifically in their ability to understand (and even predict) market trends and consumer behavioural patterns; and to adopt appropriate and timely strategies.
3. For these firms (see Table 4), size does not appear to be a factor of success. On the contrary, proper strategic formulation and implementation processes are.

<i>Company</i>	<i>Competitive strategy</i>	<i>Sales growth rate</i>	<i>ROI</i>	<i>Net worth / borrowings ratio</i>
<i>Feudi di San Gregorio</i>	<i>Differentiation</i>	<i>5,53%</i>	<i>4,60%</i>	<i>78,0%</i>
<i>Mastroberardino</i>	<i>Differentiation</i>	<i>2,89%</i>	<i>7,57%</i>	<i>110,0%</i>
<i>Terredora</i>	<i>Niche</i>	<i>6,88%</i>	<i>6,05%</i>	<i>83,4%</i>
<i>Vinicola del Titermo</i>	<i>Niche</i>	<i>11,25%</i>	<i>4,27%</i>	<i>111,5%</i>
<i>Agricola del Monte</i>	<i>Niche</i>	<i>10,85%</i>	<i>5,25%</i>	<i>71,2%</i>

*Table 4 The Top Five Campania Wine-Makers By Performance Indicators*

*Source: Research Results*

Additionally, these successful enterprises can be categorized into three groups: (1) Large firms with a formalized structure, pursuing differentiation strategies; (2) co-operatives that gain strength through strategic partnerships; and (3) micro-enterprises with actual (as opposed to claimed) niche strategies based exclusively on typical or organic products. On the antipode of the above successful firms, lie naturally the Campania firms that still have not managed to balance tradition and innovation, and who still share the mark of Campania's Achilles heel: the inability and/or unwillingness to adopt proper strategic marketing processes

In terms of prescriptive conclusions, the obvious advice is to adopt proper strategic marketing processes. Beyond this, the research recommends mergers and acquisitions as the means to growth and the achievement of proportional cost economies (scale and scope).

Regarding the financial aspect, this research's structural analysis found that there is low enterprises' capital and high financial exposure, which produces a double negative effect: firstly, high interest expenses that have a negative impact on performance, as they erode the low operating revenue; and secondly, the resulting vulnerability of many local high-quality wine firms to acquisitions from larger international wine-makers

The research has further surfaced a deficiency regarding the degree and nature of investments. Specifically, the need was pinpointed for investment in tangible assets to be supported by investments in research and development. Investments that aim for product and process innovations; brand repositioning along a higher (consumer-perceived) quality; and market and consumer knowledge towards development of ideas, creativity, originality and consumer-focused tactics.

As far as product and brand design are concerned, it was found that the two need to be interlinked and developed in parallel. Specifically, Campania wine makers should continue to valorize their autochthones vines because they are appreciated and preferred by consumers, both locally and internationally. These wines have a strong cultural link with the region and this is both a practical, but also a brand advantage (Thrassou and Vrontis, 2009). For this reason it is important to 'rediscover' the values and cultural cues that identify the region, and

to build a brand image that positively exploits this advantageous mental interrelation in the perception of consumers, for marketing purposes. In essence, regional wine firms can create added brand and economic value by utilizing an already existing cultural asset.

The above allow the research to reach another conclusion, by extrapolation. Specifically, the need for collective actions/interventions within the wider strategic and marketing processes. The wine industry is important to the region, so it is in the benefit of all stakeholders, be it individuals, businesses and governments for it to be developed. Support by governments, institutions and professional/industrial associations/chambers should be secured, organized and maximized.

Beyond external collective action though, the wine firms between themselves should learn to collaborate, both formally and informally. Especially in areas such as the building of international brand image, human resource development and attraction of external support (among many others), cohesion and collaboration is vital. The creation of relationship networks, formal and informal, that facilitate action, will also create value in terms of social capital. These social capital nets are both means and goals of localities' development, and require the support of all local institutions (Vespasiano and Martini, 2008).

The essence of the above conclusions can be encapsulated in three fundamental guiding principles that must be applied towards achieving the desired competitiveness of the Campania wine enterprises:

1. Understand and adopt proper strategic marketing processes throughout the organization and with a long term view
2. Utilize the sustainable competitive advantage of the link with the region to strengthen and refine both the product and its brand image.
3. Pursue cost efficiencies and economies of scale, be it through social support, collective actions, intra-industry networking or mergers/acquisitions.

The position the Campania wine enterprises are in is neither new nor surprising to the business world. The elements of incessant change, intense competition, difficulty in adaptation, financial pressure and uncertainty are the rule rather than the exception in the 21<sup>st</sup> century (Vrontis and Thrassou, 2007). Like in most industries of most of this increasingly globalised business world, the wine firms of Campania, Italy, will probably go through a long period of change, self-reflection and experimentation. Unavoidably some will fail and some will come out of it stronger than before.

Campania wine firms though, do have something positive to build on. They have a tradition, they have an already existing brand image to utilise, and perhaps more importantly: the harsh competition is largely with other regions/countries of the world and not necessarily between themselves. Individual firms therefore do not stand alone.

## Conclusions, Managerial Implications and Framework Development

Merging, interrelating and interpreting the above secondary and theoretical findings, allows the research to reach a number of important conclusions. Figure 1 incorporates the research findings and conclusions into a Preliminary Prescriptive Strategic Branding Framework for the Campania wine firms

The first important conclusion is evident from the study on developed country consumer behaviour (see also Vrontis et al., 2010): that products, such as wine, are evaluated based on an array of criteria and which themselves are the result of numerous factors. The criteria may be objective or subjective, tangible or intangible, and product-related or consumer-related. The research has shown that especially for wine, consumer choice increasingly rests on images, beliefs and associations with frequently strong socio-cultural aspects. 'Perception' is revealed as the ultimate factor of success and 'perception management' as the primary marketing function affecting success in the wine business. The first clear finding therefore is that apart from the practical changes regarding wine production etc., it is equally if not more important to substantially upgrade branding strategies; through both conventional means and intensified and conscious international and local consumer perception management.

The second conclusion relates to the small wine-business strategic options. Specifically, the research has shown that these are limited owing to their lack of resources. Consequently, though theoretically the best marketing strategy passes through consumer perception management, it is one that cannot easily be followed at an international level. At the same time, it is evident that collective action by the small local wine producers, with governmental support and possibly in collaboration with other industries, can achieve significant results, at least in specific and well-targeted international markets. Collaboration is therefore significant in regards to marketing, branding and perception management. Locally, collaboration may also take place at a practical/production level and internationally also at a distribution level.

A third conclusion relates to the targeting of the millions of tourists visiting the region. This research concludes that tourists should largely be treated more like an audience rather than actual consumers. In other words, the branding objective regarding tourists should not be for them to consume as much wine as possible, but to get acquainted with and learn to love Campania wine. The word 'love' is purposely used as it is a matter of building an affection-based relationship between the product and the targeted audience. Mood-state is a critical factor of positive first-encounter evaluation of products and this first evaluation is the most significant one. Tourists are on average in a much better mood during holidays. Consequently, wines tasted during this period are more likely to receive positive evaluations. Additionally, a well orchestrated perception management strategic branding strategy will associate the product (wine) with the wider holiday experience. The achieved association between wine and the overall experience of Campania will intensify the affective bond between the consumer and the country/brand image and will make tourists actively seek the

country/brand in their home country. Tourism therefore is an opportunity to sell wine, but more importantly, a golden opportunity to brand both the wine and the region and ensure long-term consumer preference. This offers a more viable alternative to the costly individual-firm branding strategies abroad.

The fourth conclusion stems from the previous one. It relates to the need for wine branding to be associated with more than just the quality of the product itself. The research has shown that developed country consumers increasingly evaluate products not based on their physical quality attributes, but rather on intangible ones. These are usually related to images, associations and lifestyles and their representations through products. Campania wine should therefore be given an image and an association with a lifestyle, which in any case exists and is freely available. Further research will indicate the specifics of these associations. An extrapolation of current research findings indicates that the 'Mediterranean lifestyle', the wider 'Italian spirit' and the history of the region (since ancient times) would be the most easily adopted associations. This strategic approach fits well with the other findings and the needs for enhanced strategic branding of the product through perception management.

The fifth and last conclusion is that for both the international and the local market, but especially for the latter, it is useful for wine marketers to understand the competitive environment and to identify who are the true competitors. The approach of 'other wine brands' being the competitors is naive or at the very least outdated. While other wine brands are indeed a primary competitor, for true competitive analysis there must be a clear distinction between local and foreign wines as the country of origin effect discussed (previously and subsequently) modifies the essence of branding strategy. Additionally, even for local wine competitors, research will show whether competition is 'open' or specified and grouped by brand, category, quality, or other criteria. Equally important is competition from other alcoholic drinks such as beer, whiskey and vodka. Competition from these should be dealt with as a parallel, but separate tactic relating to norms, habits and wider cultural behaviour. Finally, non-alcoholic drinks are rarely seen as competitors. Nevertheless, their rise as part of the social turn towards healthier lifestyles may be turned into an advantage for wines as they can claim to be part of this lifestyle, contrary to many other alcoholic competitors. A clear understanding of the competition as well as the underlying individual and social factors of success will provide additional strategic marketing options and branding directions.

The above findings identify a number of factors relating to marketing in general and branding specifically, affecting Campania firms' wine business. Various elements and factors adjacent to marketing, branding, consumer behaviour and the industry itself are presented, superimposed and interrelated, with the research ultimately combining them into a comprehensive and comprehensible form. Consequently, a Preliminary Prescriptive Strategic Branding Framework is being presented, which is specific to the Campania wine firms and at

the same time offering a more generic and international application. The framework is of course only preliminary and will require research at a local level to test its applicability to situations and conditions other than those of Campania region, Italy. It is nevertheless a valuable tool and a suitable starting point for similar research or practical application in other localities as well. A good indication of the applicability of this framework to other regions/countries, is the fact that the findings of a parallel research on the island-country of Cyprus (Vrontis et al., 2010), parts of which have been utilised towards this research, are almost identical to the findings regarding Campania. The frameworks themselves are different though this is more related to their different focus rather than contextual or prescriptive findings' differences.



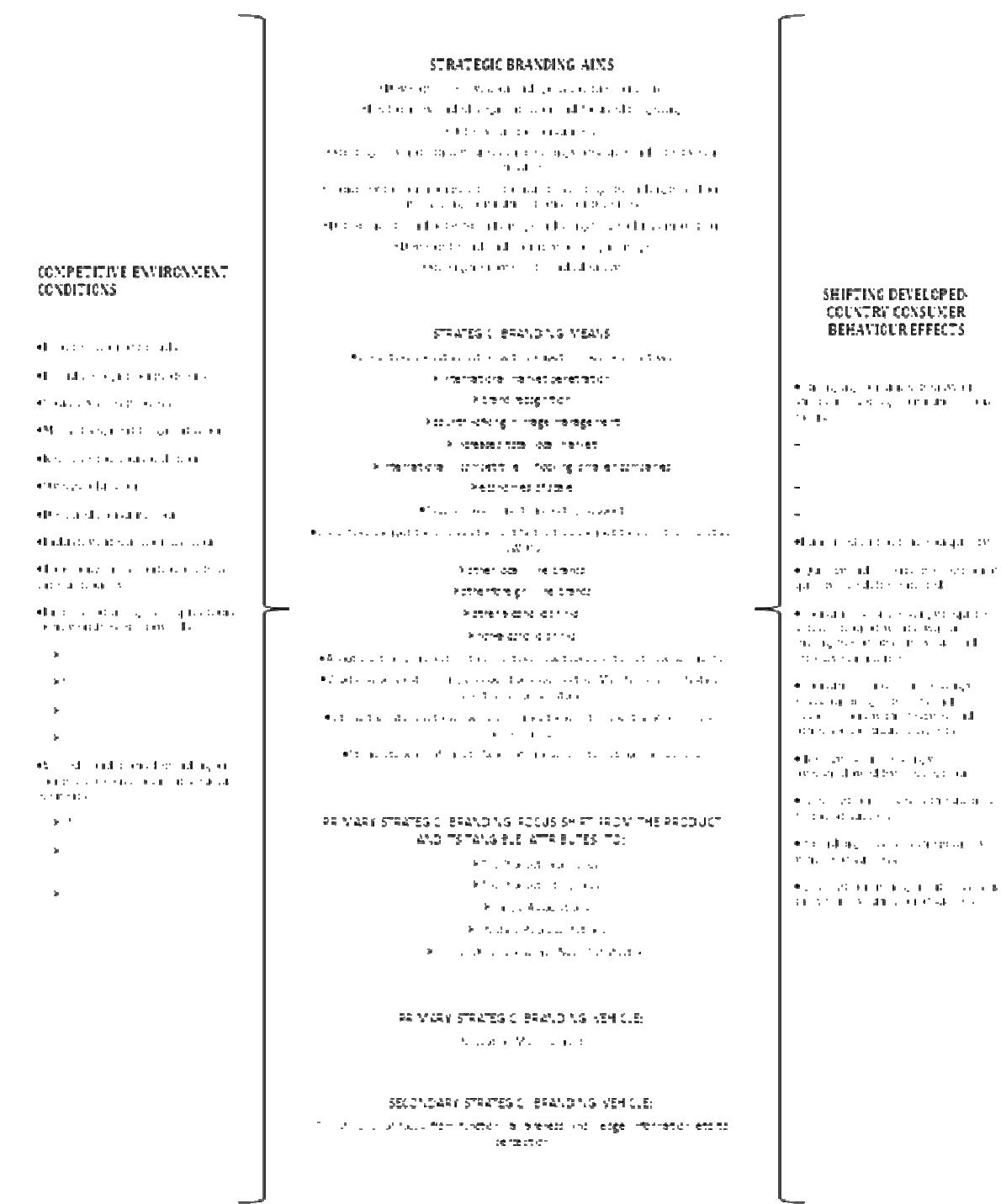


Figure 1: A Preliminary Prescriptive Strategic Branding Framework for the Campania Wine Firms, Italy

## Catalectic Discussion

This research has adopted a multi-perspective approach to understanding the wine industry in Campania, to reach specific findings and to develop a Preliminary Prescriptive Strategic Branding Framework for consumer-centered planning. It has expanded its viewing points of the subject to include subjects such as small business strategic branding, contemporary developed consumer behavior and other adjacent factors and forces. This has allowed a comprehensive conceptualization of the situation and the presentation of prescriptions that take into account as many elements as possible and which may be popularly termed 'out of the box ideas'.

Above all though, this research has found that a change must take place at the very heart and mind of Campania wine producers. The tangible essence of the wine business demands for better individual and collective organisation, improved and comprehensive strategic management approaches and systems, and a generally more professional and less passive attitude. More importantly, the research highlights the importance of the intangible aspects of wine: its brand image, its associations, the lifestyle and experiences it represents, and all other intangible elements that ultimately affect consumer choice. The research therefore indicates that a change in the way markets view Campania wine is the key to success and for that to happen Campania wine producers must first change the way they view themselves and their products.

The framework developed (figure 1), shifts the focus of marketing communications and especially branding from the products and their attributes to the products' value in terms of product experience and higher-order consumer need satisfaction. Furthermore, it identifies 'Perception Management' as a primary aim and 'Branding' as a primary vehicle of success; in effect changing the role of marketing communications from functional message transmitters and image-builders to 'stipulators' of reality. Overall, the framework demands an enhanced business intervention into the processes, through which consumers perceive the wine product, evaluate its tangible and intangible qualities and benefits, and frame their expectations. The paper's prescriptive conceptualisation was based on a multi-perspective analysis of a combination of theoretical and secondary data, but the outcome is by no means presented as definitive or complete. Rather, it is offered as a starting point for a new and distinctive analysis and as a stimulus to intellectual discussion and further research.

## Biography

**Demetris Vrontis** is Professor of Marketing and the Dean of the School of Business at the University of Nicosia in Cyprus. Professor Vrontis is the Editor of the EuroMed Journal of Business (EMJB) and the President of the EuroMed Research Business Institute (EMRBI). His prime research interests are on international marketing, marketing planning, branding and marketing communications, areas that he has widely published in over seventy refereed journal articles, contributed chapters and cases in books and presented papers to conferences

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**Matteo Rossi** is an assistant professor in Management and Corporate Governance at the University of Sannio, Italy. His prime research interests are on business strategies, wine marketing, local development, innovation system and corporate finance, areas that he has published in contributed chapters in books/edited books and presented papers to national and international conferences. Dr Rossi is also a member of the EuroMed Research Business Institute (EMRBI) and the Athens Institute for Education and Research (ATINER) and he is a member of the editorial board of World Journal of Business Management.

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## NEGOTIATION, CULTURAL DIFFERENCES, AND PLANNING IN MERGERS AND ACQUISITIONS

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### Abstract

Mergers and Acquisitions (M&As) have proven to be a significant and increasingly popular strategy used by a large number of firms in many regions across the globe despite the consistent evidence on negative post-merger performance. While there are many studies that focus on the pre-merger stage, the literature on post-merger integration processes is limited and it is rarely possible to find a study on the negotiation stage.

The paper explores the crucial yet neglected factors that influence negotiation outcomes. It provides theoretical framework that provides opportunities for systematic research on the relationships between cultural differences, negotiation planning, and their interrelationship, and on negotiation outcomes.

### Introduction

One of the enduring paradoxes in management literature has been the propensity of corporations and executives to engage in mergers and acquisitions (M&A) despite consistent evidence that post-merger performance of acquiring firms is disappointing (e.g., Schoenberg, 2006). A possible answer to this paradox is that existing research on M&As provides a limited and insufficient understanding of this important phenomenon, especially the merger process. While there are many studies that focus on the pre-merger stage, the literature on post-merger integration processes is limited and it is rarely possible to find a study on the negotiation stage in M&A.

Some scholars pointed on specific gaps in the M&A literature. For example, studies that focus on the importance of cultural differences in M&A rarely investigated the "black box" of post merger process to explain the conflict factors that may damage the implementation of post merger integration and eventually lead to poor M&A performance (Weber, Shenkar, and Raveh, 1996; Weber, 1996). Indeed, most studies, although essential to the understanding of mergers, leave important aspects such as negotiation and planning unexplored. Yet, scholars pointed out that the planning and negotiation of the deals are important to subsequent

management of the post-acquisition phase and eventually M&A success (e.g., Angwin, 2001; Haspeslaph and Jemison, 1991).

This paper seeks to fill some of these gaps. It aims to develop theoretical framework that better explain factors that influence negotiation outcomes. Its contribution is threefold: (1) an exploration of the crucial yet neglected stage of M&A, namely negotiation; (2) understand of the possible role of cultural differences and planning in negotiation outcomes in M&As; and (3) suggest another point of view that may explain the contradictory finding in M&A performance.

### **Cultural Difference and negation in Mergers and Acquisitions**

A considerable amount of studies focus on the effect of cultural differences on post-merger success but the findings are contradictory (e.g., Stahl and Voight, 2008; Weber, Tarba, and Reichel, 2009). Separate stream of research, the negotiation literature, (e.g., Dupont, 1996; Fisher & Ury, 1981; Kennedy, 2001) has offered many useful thoughts and models about how to study and conduct negotiations. However, the fallacy of such approaches is that negotiations tend to be viewed as culture-free, deal-focused, and watertight legal packages that exclude “soft factors” such as culture and people. For example, one widely read piece of advice is to “separate the people from the problem” (Fisher & Ury, 1981). For example, for many American executives, the goal of a negotiation, first and foremost, is to arrive at a signed contract between the parties. Americans consider a signed contract as a definitive set of rights and duties that strictly binds the two sides and determines their interaction thereafter. ). More recently, negotiation scholars have started to doubt this deal-focused approach to business negotiation, suggesting that “negotiation strategy needs to be modified and expanded to take cultural differences into account” (Brett, 2001: xix).

International or cross-cultural negotiation studies also point out that cultural differences, if not handled properly, would jeopardize international co-operative relationship in general and negotiation outcome in particular. Cultural differences tend to cause poor communication, misperception, and misunderstanding, often leading to a failure of business in cross-cultural environments (Brett, 2001; Buono, Bowditch, & Lewis III, 2002; de Beaufort & Lempereur, 2003; Faure & Rubin, 1993; Hall, 1976; Hofstede, 1989; Hofstede & Usunier, 2003; Hopkins, 2002; Usunier, 2003). Recent research on M&A negotiation reveals that many failures of M&A find their cause in the mismatch in cultures (Kennedy, 2001) and the lack of fruitful contacts and information exchange between the two sides at various stages (de Beaufort & Lempereur, 2002).

Brett (2000) presents three main situations that are created at the end of a process of negotiations:

- Successful end for both parties – win-win situation. Every side in the negotiations has benefitted. This outcome is possible when each side is interested in something different and when this focus of interest is found on a different scale.
- Successful end for only one party. This situation occurs when both parties are found on the same scale of measurement. The success and failure of the parties are measured by the same standards (zero sum game).
- Cessation of negotiations without results, when neither of the parties has been satisfied and neither has succeeded in convincing the other side. The result of this situation is that each party loses. When the sides are motivated to search for information about the opposite party so as to contribute to the construction of the agreement and they are flexible in the process that will lead to agreement, it is possible to bridge the cultural gaps and reach an agreement optimal for both sides.

The gap between cultures has negative influence on the negotiations and on their success. Culture differences can create lack of clarity and lack of understanding in the intercultural contacts, which lead to conflicts and lack of trust between the parties (Barkema, Bell, and Pennings, 1996). Members of different cultures perceive opportunities and threats differently and respond to them in different ways (Shneider and De Meyer, 1991). During negotiations between members of different cultures it is very difficult to avoid differences of opinions between the parties and uncertainty (Hofstede, 1989). Research studies indicate that collaborations between members of different cultures are perceived as threatening (Brown, Rugman, and Verbeke, 1989) and that as the cultural gaps between the parties are greater, the percentages of success in intercultural business relations are lower (Li and Guisinger, 1991).

**Proposition 1:** The higher cultural differences the lower negotiation success

This and other propositions are described in Figure 1.

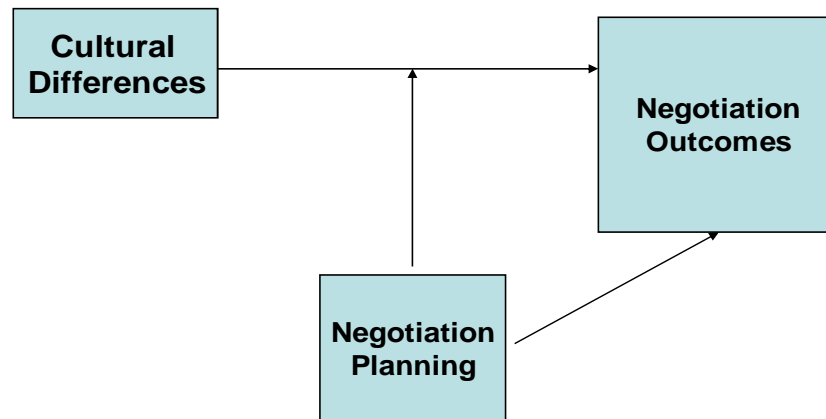


Figure 1 - Main and Interaction Effects of Planning and Cultural Differences on Negotiation Outcomes in M&A

### Negotiation Planning in Mergers and Acquisitions.

How then should an executive prepare to cope with cultural differences in making deals in Singapore this week, in France the next week, and in Seoul the next month?

In the studies of M&A, attention is directed largely to the impact of national and organizational cultural differences (e.g., Weber et al, 2009), whereas surprisingly the impact of negotiation planning on the process and outcome of cross-cultural management activities have been scantily researched. Wherever it actually occurs, negotiation requires people to focus on a variety of important dynamics: communication, trust-building, cross-cultural perceptions, personalities, bargaining styles, and tactics such as crafting offers and counter-offers.

An important element in the planning of the negotiations is the collection of relevant knowledge on the parties in the negotiations. The success of the negotiations depends on objectivity, on the importance of correct information, and on the painstaking planning of the course of the negotiations (Gelin, 1996).

The managers of the negotiations need to collect as much information as possible on the topic of the negotiations and on the participants, determine clear goals and objectives, and examine tactics of different strategies. The result of the negotiations depends primarily on the



initial expectations set in the planning stage as objectives to be achieved by the parties in the negotiations, on the planning of the negotiations, and on the success of the implementation of the predetermined strategy (Brett, 2000).

Specific deals are negotiated in broader economic, political, and legal contexts, which can vary over time and as you cross borders. Gaining this broader understanding as well as ordinary legal and regulatory advice by locally knowledgeable counsel are clearly critical. By thinking about broadly comparable deals—not merely from a valuation standpoint—one may better understand his host's expectations, hopes, and concerns.

Thus, the negotiator, or the team, can then prepare good arguments for and against the expectations and concerns and design the strategy to take this arguments as well as steps into account.

The strategy and tactics should be designed to exert maximal influence on that process, thus, have chance to deal to negotiation positive outcomes.

Furthermore, lack of knowledge and lack of understanding of the culture of the other party and evaluation based on the familiar cultural context may cause erroneous judgment in the negotiations (Brett, 2000). The culture of the sides has central importance on the negotiations process (Lewicki, Saunders, and Barry, 2006). A research that examined the impact of the culture on the making of ethical decisions in the negotiations process found that when the sides understand the cultural differences that influence the decision makers in the negotiations, then this comprehension reduces the negative emotions and lack of trust caused by the use of controversial tactics. In addition, the understanding can cause one party to refrain from tactics that may endanger the process with the side from the other culture (Rivers and Lytle, 2007).

The understanding of the characteristics of the culture and the relationship between it and behavior, the understanding of the way in which conflicts are resolved, and the choice of the strategy in the management of the negotiations process of the other party clarify the logic that lies behind the preferences and interests of the other party and reduce the feeling of uncertainty on the topics discussed in the negotiations, help overcome the lack of fit, and improve the communication between the parties in the process (Brett, 2000).

Recognition of the other party's culture characteristics, recognition of the other party's negotiation method, knowledge of the way to resolve conflicts with the other party, and understanding of the other party's interests and priorities contributes to the improvement of the results of the negotiations. Understanding the impact of national values is most important in the success of the negotiations (Hofstede and Peterson, 2000). Hence, prior planning facilitates the success of the negotiations and brings the desired outcome closer.

**Proposition 2:** The level of negotiation planning is directly related to the results of the negotiations. When the level of planning is higher, the results of the negotiations are better.

### The Moderating effects of Planning

Culture can influence the way in which persons perceive and approach certain key elements in the negotiating process. A knowledge of these cultural differences may help negotiators to better understand and interpret their counterpart's negotiating behavior and to find ways to bridge gaps created by cultural differences (Salacuse, 1993).

Furthermore, in any international negotiation, it is important to know how the other side is organized and makes decisions. Culture is one important factor that affects the way groups are organized and the way organizations function. Some cultures emphasize the individual while others stress the group. These values may influence the organization of negotiating teams and its planning.

A research conducted among Americans, Britons, Japanese, Greeks, Russians, and Australians found different perceptions regarding negotiations and differences in the ranking of importance of the different characteristics in the negotiations process (Zarkada-Fraser and Fraser, 2001). The great diversity of the world's cultures

makes it impossible for any negotiator, no matter how skilled and experienced,

to understand fully all the cultures that he or she may encounter. One approach to planning is to identify important areas where cultural differences may arise during the negotiation process. A knowledge of those factors may help a negotiator to understand a counterpart from another culture and to anticipate possible sources of friction and misunderstandings. Thus, planning can reduce the effects of cultural differences on negotiation outcomes. Hence,

**Proposition 3:** The level of planning will moderate the effect of cultural differences on negotiation outcomes. The higher the planning, the lower the effects of cultural differences on negotiation outcomes.

### Discussion and Conclusions

The high failure rate of mergers suggests that neither scholars nor practitioners have a thorough understanding of the variables involved in the post-merger integration process. This paper provides a conceptual framework that draws attention to the importance of negotiation, cultural differences and planning, in addition to strategic and financial factors, that affect the success of M&As. In doing so, it responds to long overdue calls in M&A literature (e.g., Weber et al., 1996), to combine merger stages. Accordingly, the performance of M&As depends not only on synergy potential available from the merger (pre-merger stage), but also on whether the synergy can actually be accessed (negotiation stage) and realized.

The concepts and relationships among key variables presented in this paper provide a new approach to increasing our understanding of the underlying elements that affect the success of various stages during M&As. As such, it is in a better position explains behavioral problems associated with post-merger conflict, that may arise during negotiation process, than previous studies, can provide better guidelines for future research, and has important practical implications for top managers involved in the international merger process.

The theoretical framework presented here provides ample opportunities for systematic research on the relationships between cultural differences, negotiation planning, their relationships, and their variable impacts on conflict in both domestic and international M&As. Furthermore, this framework can used to incorporate other theoretical framework, such as integration approaches (Weber et al, 2009). For example, what are the implications of the choice of negotiation and integration approach on the conflict situations, and executive turnover following merger (Lubatkin, Schweiger, and Weber, 1999).

Research efforts should also be directed at investigating the effectiveness of different negotiators (e.g., selection, training, appraisal, reward, communication) in dealing with conflict situations in negotiation of domestic and international M&As. For example, proper selection and training of managers who will be in contact with members of the foreign negotiation team may reduce the potential for conflict. Diplomatic skills, cultural sensitivity, and negotiation and conflict resolution abilities may all help in this regard. Effectively selected and well-trained managers can improve communication between the two management groups, reduce stress and uncertainty, and alleviate behavioral problems such as low commitment, poor cooperation, and high turnover.

The empirical pursuit of these various issues may encounter certain methodological difficulties. Ideally, cultural differences should be investigated before a merger takes place and compared with data collected after the merger. However, it is not only difficult to gain access to such data in large samples during the negotiation period, but it is also expensive because many negotiations do not result in M&As. This problem is compounded by another difficulty associated with the measure of national and corporate cultures. Many elements of culture are unclear to its members because they are so much a part of people's lives that people take them for granted (Schein, 1985). Dramatic events, however, such as M&As and the subsequent contact with other cultures make differences salient, especially in conflict situations (Sales & Mirvis, 1984). Retrospective data can thus be useful in studying the relationships between cultural differences and the attitudes and behavior of managers and employees. It has been observed that attitudinal and behavioral data do not become less accurate over time, even after periods of 10 years (Guttek, 1978; Pettigrew, 1979). Such a study should follow the recommendation of Huber & Power (1985) for the use of retrospective data.

By anchoring the sample (i.e., the acquired companies) in one country, research into cultural differences in international M&As can avoid such methodological problems

associated with international survey research as functional, conceptual, and metric equivalence, which, for instance, may be found in “safari,” adaptation, and decentralized-collective research efforts that are administered in several countries. For example, samples of companies acquired by international and domestic firms may be identified in one country. This would allow the comparison of the effects of corporate cultural differences in domestic M&As with the effects of national and corporate cultural differences in international M&As. In both cases, data may be collected by questionnaires and interviews from respondents working in the acquired companies, all of which belong to the same national culture (see, for example, Weber, Shenkar, and Raveh, 1996). But although such samples eliminate the aforementioned methodological problems, their results are limited, and generalization should be based on samples anchored in different countries.

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## THE EFFECTS OF CULTURE CLASH ON INTERNATIONAL MERGERS IN THE HIGH TECH INDUSTRY

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### **Abstract**

The present paper presents a case study of a merger between Israeli and British high-tech companies and illustrates the effect that the choice of post-merger integration approach has on the success or failure of a cross-border merger and acquisition. The study extends existing knowledge of cross-cultural management in international high-tech mergers by analyzing the effects of cultural differences on the effectiveness of the symbiosis integration approach.

**Keywords:** National culture, corporate culture differences, post-merger integration.

"Does the name Robert Madge mean anything to you? It probably rings a bell, if a distant one. Madge was the founder of Madge Networks, which in the late '90s was the market leader in Token Ring networking technology. The once high-flying company has since met the same fate as that of Token Ring itself: near oblivion"

(Tennant, 2008)

### **Introduction**

The growth in merger and acquisition (M&A) activity, the volume of capital involved, and the pervasiveness of M&A stand in sharp contrast to their high rate of failure. Over the past thirty years, a growing body of research has investigated the antecedents that predict the performance of M&As. Despite this extensive body of research, however, the key factors for M&A success and the reasons why so many M&As fail remain poorly understood (Stahl, Mendenhall, and Weber, 2005). The conclusion of a recent review of the M&A literature by King, Dalton, Daily, & Covin (2004) is that "existing empirical research has not clearly and repeatedly identified those variables that impact an acquiring firm's performance." The authors suggested that "[r]esearchers simply may not be looking at the 'right' set of variables as predictors of post-acquisition performance" (p. 197), and recommended that future

research pay more attention to non-financial variables that are currently underrepresented in theory and research that seeks to explain M&A activity and performance.

Most management researchers and practitioners point out that cultural differences and integration efforts during the post-merger integration period are critical for performance (e.g., Graebner, 2004; Stahl, Mendenhall and Weber, 2005; Schoenberg, 2000; Schweiger and Goulet, 2000). But the interrelationships between corporate culture, national culture, and integration approaches, as well as their influence on the success of international mergers are not clear (e.g., Shimizu et al., 2004; Stahl et al., 2005). Moreover, the results of empirical studies are often contradictory (Schoenberg, 2006; Teerikangas and Very, 2006). For example, whereas some findings revealed a negative relationship between M&A performance and organizational cultural differences (Chatterjee, Lubatkin, Schweiger and Weber, 1992) as well as national cultural differences (Datta and Puia, 1995; Slangen, 2006), others found a positive relationship (e.g., Morosini, Shane and Singh, 1998). The conclusions reached by Very, Lubatkin and Calori (1996) that “cross-national mergers are a complex phenomenon, sometimes influenced by national cultural differences, sometimes by organizational influences, sometimes by both and sometimes by neither” are apparently still valid.

Reflecting the fact that many European and North American multinational corporations operate subsidiaries in Israel, Harel & Tzafrir (1999) suggested that the Israeli working environment may be viewed as a Madurodam (microcosm) for developed Western countries and their high-tech industries. Israeli population has a high proportion of scientists and engineers, with approximately 130 scientists and engineers for every 10,000 workers (Chorev & Anderson, 2006), compared with 80 in the U.S. and 75 in Japan. Israel has the greatest R&D expenditure in the world as a percentage of GDP (Traston, Sarusi, Kochavi, Zisapel & Ayalon, 2002) and the highest number of start-ups in the world relative to population size. More than 130 high-tech Israeli firms are listed on the US stock exchange, the largest number of any nation outside North America (Lashinski, 2000; Yeheskel, Shenkar, Fiegenbaum, Cohen & Geffen, 2001). Thus, although the present paper focuses on the integration process of an acquired Israeli high-tech company, its findings have implications for HR-intensive industries such as the high-tech industry in many Western countries.

The trade-off between synergy potential exploitation and behavioral effects on the post-merger implementation process

Makri, Hitt, and Lane (2010) suggested that both complementary scientific knowledge and complementary technological knowledge can contribute to post-merger performance by stimulating higher quality and novel inventions. Post-acquisition integration and resource reconfiguration are necessary in order to exploit potential synergies between the acquired and acquiring firms (Capron, 1999; Larsson and Finkelstein, 1999). But the loss of autonomy that typically accompanies the integration process can be detrimental to acquisition

performance (Chatterjee et al., 1992). Moreover, effective integration of the target firm entails a substantial commitment of managerial resources of the buying company (Haspeslagh and Jemison, 1991). In general, attention to cultural and people issues is most critical to M&As that require high levels of integration because the higher the level of integration, the greater the extent of contact between acquirer and acquired, and the degree of change in the acquired firm. The level of integration affects the emotions and attitudes of the acquired employees and may lower their commitment to the acquiring management and the level of cooperation with it (Haspeslagh and Jemison, 1991; Stahl and Sitkin, 2005; Weber, 1996; Weber, Shenkar, and Raveh, 1996), eventually leading to higher turnover (Lubatkin, Schweiger, and Weber, 1999) and other negative outcomes.

The dilemma of post-acquisition integration level vs. expected synergy potential exploitation may be especially salient in the acquisition of high-tech firms. Mergers in this industry are often motivated by the desire to obtain and transfer tacit and socially complex knowledge-based resources (Ranft and Lord, 2002; Ranft, 2006). Because these forms of knowledge are difficult to transfer, a high degree of post-acquisition integration may be required in order to realize the anticipated benefits of these acquisitions (Puranam Singh, and Zollo, 2003; 2006; Puranam and Srikanth, 2007; Puranam, Singh, and Chaudhuri, 2009). At the same time, integration may ultimately lead to the destruction of the acquired firms' knowledge-based resources through employee turnover and disruption of organizational routines (Puranam et al. 2003; 2006). Therefore, determination of the level of post-acquisition integration is of paramount importance for the success of the M&A.

The above discussion shows that although current literature discusses the need to develop a composite model, it is still ambivalent about the question of how post-acquisition processes result in the success of cross-border M&As. The present research investigates the M&A implementation process and the factors that can influence the ultimate success of M&A at this stage. To further examine this question, we used the narrative approach to conduct an in-depth, longitudinal analysis of the cross-border acquisition of the Israeli company Lannet by the British Madge corporation.

### **Post-acquisition integration approaches - A revisited model**

Empirical findings from the past 20 years suggest that the influence of culture on the integration process is critical (e.g., Stahl and Voight, 2008; Weber, Tarba and Reichel, 2009). The integration approaches that have been suggested for the post-merger implementation process (Haspeslagh and Jemison, 1991; Marks and Mirvis, 1998) emphasize the synergy potential and autonomy removal from acquired top managers (e.g., Haspeslagh and Jemison, 1991; Nahavandi and Malekzadeh, 1988), but by and large ignore the empirical findings of the last two decades. In other words, previous matrices do not clearly consider the evidence that post-merger implementation efforts depend largely on the level of cultural differences between the two firms engaged in the M&A.



The matrix in the present study uses “corporate cultural differences” and “national culture dimensions” variables as its dimensions instead of “need for autonomy” as the influence on the choice of integration approach. Several reasons based on the literature review lead to this application. Since Haspeslagh and Jemison (1991) have suggested this framework, empirical findings have clearly indicated the critical nature of the effects of culture clash and its dimensions on M&A success in domestic M&As (e.g., Cartwright and Cooper, 1993, 1996; Datta, 1991; Chatterjee et al., 1992; Weber, 1996; Weber and Pliskin, 1996), in international M&As (e.g., Datta and Puia, 1995; Morosini et al., 1998; Lubatkin et al., 1998), and in both (e.g., Weber et al., 1996).

In view of the importance of cultural differences and of specific cultural features for the success of M&As, we propose a modified framework for post-acquisition integration approaches. Figure 1 presents the integration approach choices as a dependent variable influenced by synergy potential and cultural differences. The synergy potential dimension in this matrix is straightforward, and it parallels the dimension in other frameworks such as relatedness (Nahavandi and Malekzadeh, 1988) and the need for strategic interdependence (Haspeslagh and Jemison, 1991).

Insert Figure 1 about here

The proposed matrix uses the terminology of Haspeslagh and Jemison (1991) for integration approaches because: (a) the authors described clearly the differences between these approaches; (b) received recent empirical support (Ellis, 2004; Ellis, Weber and Raveh, 2003), and (c) the concept is widely used (e.g., Child et al., 2000; Graebner, 2004).

The integration approach distinguishes between strategies of absorption, preservation, and symbiosis. Absorption implies a high level of integration and therefore the lowest autonomy for the acquired management; it is recommended for achieving a high level of synergy when the level of cultural differences is low. Preservation implies the lowest level of integration and therefore the highest autonomy for the acquired management; it is recommended for low synergy potential and high cultural differences. Symbiosis, with moderate levels of synergy and cultural differences, implies a moderate level of integration.

## Methodology

### The Research Design

We examined the acquisition of the Israeli company Lannet in 1995 by the British firm Madge using in-depth semi-structured interviews with senior managers. Furthermore, we analyzed secondary data that were available in the public domain, such as press articles, annual reports, marketing materials, and internal reports. We also had access to protocols of

meetings and discussions held between the two companies. We asked top management about the reasons for the acquisition and subsequent merger, cultural differences between the firms, the development of the merger process, their involvement in the process, and the management of post-acquisition integration.

To reduce the risk of informant bias, we conducted multiple interviews with senior executives of each firm. Interviews lasted on average 1.5-2 hours.

Data collection and analysis were based on the case study methodology (Eisenhardt, 1989; Eisenhardt and **Graebner**, 2007; Yin, 1994; 1995) and included the following steps:

- Initial statement of research questions and identification of important constructs.
- Selection of the case for theoretical reasons, based on replication logic. According to Eisenhardt (1989) and Eisenhardt and **Graebner** (2007), the goal of theoretical sampling is to choose cases that are likely to replicate or extend theory. The selected high-tech case was an international merger process that was considered strategic for both companies.
- A detailed case study was drafted and sent to senior management to elicit comments.

### **Madge and Lannet before the Merger**

#### **Madge**

Madge Networks NV, was a supplier of computer network solutions based on the Token Ring Smart Ringswitch standard. The Token Ring was developed and marketed in the early 1980s by IBM. Founded in 1986, Madge functioned as a British corporation under the name Madge Networks Ltd. In June 1993, all the shares of Madge Networks Ltd. were bought by Madge Networks NV, which was listed on NASDAQ with a market valuation of \$300M.

Madge's major competitors were IBM, OLICOM, 3Com, and Bay Networks. Madge was expected to compete with these companies in the ATM market, which also attracts new entrants. The company's success depended to a significant degree on the contribution and leadership of its principal founder and CEO, Robert H. Madge, and of a small number of key employees and senior managers. Madge was confident of its future market prospects and believed that its success was related directly to its ability to attract and employ highly skilled technical, managerial, and marketing personnel. The competition for this type of personnel is intense and there is no guarantee of success.

#### **Lannet**

Lannet, a wholly owned subsidiary of the Rad Binat group of companies, developed, produced, and marketed Local Area Network (LAN) solutions for business systems, ethernet switching, and internet products for ATM technology. The tested Ethernet technology, more widespread than the Token Ring, was suited for large organizations with relatively low

network loads. Lannet switchboards well-known worldwide for their technologically superior performance. The company employed 350 people before the merger and used subcontractors based in rural areas in Israel. The main competitors of Lannet, as of Madge, were Cisco, 3Com, and Bay Networks.

### **The Merger Process**

In 1995 the Madge team arrived in Israel for an initial audit of Lannet, which held the third largest market share position in Ethernet switch ports worldwide. Lannet was a perfect partner in other ways as well because it brought expertise in networking systems, sales, and support, and had an established international VAR network, complementing Madge's sales and support operation, which worked directly with end users worldwide. Madge operated a truly multinational company, based on a distributed management structure, and served customers from 40 locations in 20 countries. The addition of Lannet was expected to further strengthen the company's global presence and its ability to be a strategic partner for customers planning the future of their networks around switching technology. Therefore, the merger offered a high synergy potential.

Robert Madge, the founder and CEO of Madge, offered to buy Lannet for \$330M, at \$27.5 per share, higher than the \$24 per share initially suggested by the Madge team. Although Lannet managers were concerned about the incompatibility of the Madge and Lannet distribution channels, they sealed the deal, conditional upon due diligence and a visit to Madge's facilities in England. In 1995 the merger was concluded and Lannet shareholders received Madge shares at \$27.5 (based on a valuation of \$330M) in return for Lannet shares valued at \$19. This represented an immediate profit of 45% for Lannet shareholders.

Although this was an outright acquisition, the announcement described the deal as a merger to give Lannet employees a good feeling. The name "Lannet" was removed from all documents and products and was replaced with "Madge-Israel."

A feeling of a strong financial backing caused an immediate increase in inventory despite a reduction in cash reserves. The number of employees increased from 1,200 to 1,700, and in two years reached 2,400. Lannet's network of local distributors ceased to exist, and the image of Lannet as a small, flexible, and dynamic firm was lost.

Employees at Madge-Israel attended a brief workshop on bridging the national and corporate cultural gap between the two organizations. Lannet management operated informally. All employees could approach senior management at any time to present problems and suggest possible solutions. Decisions were made quickly and informally. By contrast, Robert Madge was always addressed in a formal manner, the hierarchy was always acknowledged, and decision making was centralized.

Apart from the fact that the Israeli and British development teams did not get along, a technological improvement that made Ethernet networks much faster (increasing data

transfer rates a hundred fold) marginalized ATM products and emptied the merger between Madge and Lannet of content.

### **Anticipated Advantages of the Merger**

The marriage between Madge and Lannet was consummated when both companies were at their peak. Madge, the younger of the two, specialized in the Token Ring network market, and Lannet contributed its competence in Ethernet networks. The objective of merger was to enable the two companies to develop a new communications switch based on ATM technology, which was considered at the time to be the last word in fast data communication. In addition, Lannet was supposed to become integrated into the international Madge marketing infrastructure and enter new market segments.

The anticipated advantages of the merger were:

- The ability to cooperate in the utilization of operating resources and to produce efficiencies in such functions as manpower, finance, manufacturing, and marketing.
- Reduction of inventories, reduction of R&D expenses, and gains derived from economies of scale.
- The ability to transfer professional know-how from one company to the other. Lannet was regarded as the better of the two companies in R&D, whereas Madge held the advantage in the area of marketing.
- Reduced competition.
- Increasing the range of products being offered and expanding the variety of communication solutions.
- Obtaining a larger market share (chiefly for the Lannet line of products), which was to establish the “viability” desired by Lannet’s international customers.

### **Anticipated Difficulties: Differences in National and Organizational Culture**

#### **Corporate culture issues**

We made an effort to incorporate the most relevant dimensions of corporate culture differences into the present study based on the literature on M&As and top management culture (Chatterjee et al., 1992; Weber et al., 1996).

The acquisition process was carried out extremely rapidly, which did not allow sufficient time for an in-depth examination of the M&A deal. No assessment was made of the difficulties that may be expected in implementing the merger. In particular, no examination was conducted of the differences in corporate (organizational) culture, national culture, or the need of the acquired company to retain elements of autonomy. Such an examination is essential for planning the integration process and choosing the integration approach. No

dynamic evaluation was made of the likely reactions of competitors, customers, suppliers, and distributors. According to Robert Madge "...because we couldn't get positive market momentum, all the differences in opinion broke out, and it became that much harder to make it work together" (Tennant, 2008).

Although Madge referred to anticipated difficulties in the merger implementation, two key matters were not investigated: the differences between the organizational cultures of the two companies and the need of the acquired company and of its principals to retain their autonomy, which was exceptionally strong at Lannet.

In sum, significant differences in corporate culture existed between Madge and Lannet. Given the need of the acquired company to retain its autonomy, these difficulties could have been anticipated during the process of integration. The following analysis describes corporate cultural differences along seven dimensions summarized in Table 1.

Insert Table 1 about here

### **Innovation and action orientation**

Top Madge management had great expertise in their organization's limited area of operation and was unwilling to adjust rapidly to new opportunities as they developed. It valued stability, intensive planning, and a high degree of formalization. By contrast, the top management of Lannet was trying to identify and exploit new products and market opportunities much more dynamically. On this dimension, the differences between the two companies were medium.

### **Risk-taking attitude**

To achieve and sustain its competitive advantage through innovation, Lannet management showed willingness to take risks by investing in R&D projects and in penetrating new markets abroad. Thus, Lannet tended toward risk-taking. Madge management was not characterized by high sense of urgency that resulted from its attitude toward risk taking. On this dimension, the differences between the two companies were medium.

### **Lateral interdependence**

Madge management attached importance to cooperation and communication between various sub-units of the company, and encouraged them to share and understand one another's problems and difficulties and help other departments rather than compete with them. Lannet management used simple forms of coordination (e.g., standardization and scheduling). On this dimension, the differences between the two companies were high.

### **Top management contact**

Lannet management believed in allowing and encouraging subordinates to be creative and try new things at a reasonable risk. Lannet management was open to criticism. Madge management emphasized strict subordination and was not open to criticism.

On this dimension, the differences between the two companies were high.

### **Autonomy and decision making**

Lannet management believed in decentralized decision making and delegating authority to lower level management. Madge was highly centralized and believed in strict control over decision making.

On this dimension, the differences between the two companies were high.

### **Performance orientation**

Top Madge and Lannet managers held similar beliefs about how much emphasis should be placed on a high standard that motivates people to continually improve performance, make people feel that they are held accountable for their performance, and make performance expectations clear.

On this dimension, the differences between the two companies were low.

### **Reward orientation**

Madge management believed in the importance of clear criteria for compensation. By contrast, Lannet management thought that bonuses can be given based on manager recommendations about their direct subordinates.

On this dimension, the differences between the two companies were high.

### **National Culture Issues**

National culture differences played a significant role in the outcome of the merger between Madge and Lannet. Differences between British and Israeli culture were assessed with Hofstede's following dimensions: power distance, uncertainty avoidance, individualism, and masculinity (Table 2) (Hofstede, 1980; 2001; Hofstede and McCrae, 2004). These dimensions have been found to be predictive and valid in assessing the M&A process and its success (Stahl and Voight, 2005; 2008).

Insert Table 2 about here

Given the large national cultural distance on all dimensions, problems could have been expected during the integration of the two firms.

In addition, according to Lannet employees, significant cultural differences inhibited the development of the expected synergies:

- "...The corporate cultures of the two corporations were very different. The head office in England requested a certain focus on R&D, while we were busy doing exactly the opposite in order to show that our ideas were correct and not theirs..."
- "...The general feeling was that there is no leadership and no short or long term plans..."
- "...The right hand did not know what the left hand was doing, no coordination, no focus, no sense of direction..."

### **The Integration Process and Its Consequences**

Autonomy was removed from Lannet managers almost entirely, following the absorption approach. Analysis revealed that because of high cultural difference at both national and corporate levels, and high synergy potential between the combining firms, the symbiosis approach should have been employed. Eventually, the merger failed because of the poor choice of integration approach applied by the acquiring firm. The choice of post-merger integration approach resulted in behavior problems, low commitment and cooperation, and high turnover of top executives and key talent at Lannet.

As Robert Madge admitted later: "... Lannet was a large company comparable to ourselves with nearly as many people. After about six months it became clear that our sales were not reacting well as a joint company" (Tennant, 2008).

Typical comments by employees of the acquired Israeli firm were:

- "... We were required to fill in forms and get authorization for every action..."
- "... We have lost our autonomy, every new recruit had to be approved by the head office in England..."

The culture and operating procedures of Lannet were not retained. There was no gate keeping structure. Madge's managers did not expect or encourage voluntary interactions initiated by the acquired firm. Indeed, Madge moved quickly to absorb Lannet completely: "...we had a lot of problems in putting the company together. We couldn't get a clear, focused strategy that everybody bought into. Most acquisitions fail. If you can't get positive momentum fairly soon, you're much more likely to fail, especially when the two companies are fairly similar in size" (Tennant, 2008).

As comments by Lannet managers and employees indicate:

- "... The British disregarded many reports that were generated in Israel..."
- "... The project presentations were always made by the British manager, and little credit was given to the Israeli teams..."

- "... The reports went only one way..."
- "... We were required to work Fridays, which are considered to be part of the Israeli weekend..."
- "... Joint R&D teams did not manage to bridge the gap between former Lannet and Madge employees..."
- "... Excessive bureaucracy contributed to the incapacity of the Israeli management team to make decisions..."
- "... Senior management consisted of only Madge personnel, except for Lannet founder and CEO, Benny Hanigal..."
- "... Madge forced its methods and business practices on former Lannet employees..."

The VP for Finance of Madge-Israel left for "personal reasons" and was replaced by Dennis Palmory, a member of the management team. Most board members of Lannet left and sold their shares, causing great concern and disappointment among employees. Only after the merger was pronounced a failure, did Madge separate the two organizations. This shortcut resulted in the resignation of key senior managers at Lannet, including the founder and CEO. Lannet employees started to fight for autonomy, undermined Madge initiatives, and hurt the R&D capability of Lannet, which was one of the main reasons why Madge acquired Lannet in the first place.

## Merger Results

Madge had the larger marketing setup of the two companies, which engaged in distinctly different technologies: Madge in the Token Ring product line and Lannet's in the Ethernet line of switching products. Madge and Lannet employed different marketing techniques. Madge marketed its products primarily to final customers, using its own sales force, whereas Lannet used outside distributors. Madge customers were mainly large organizations and governmental agencies, whereas Lannet sold mainly to small and medium-size firms with relatively low network loads. Finally, Madge continued to rely on relatively old-fashioned technologies, whereas Lannet managed to achieve considerable progress in the growing field of ATM.

After the merger many difficulties arose. Sales stagnated and disagreements with headquarters ensued. Lannet, now Madge-Israel, was required to adopt the marketing and distribution practices of Madge International. As a result, Lannet's best distributors began working with the competition. Lannet founder and CEO, Ben Hanigal, left Madge-Israel.

After allowing for reduced sales and administration expenses and excluding the non-recurrent reorganization costs, the company reported a loss of \$9.4M. Madge shares traded at \$5.75, significantly below their value at the time of the merger.



## The Merger Break-up

Madge management concluded that it was best to allow Madge-Israel to become independent in all its decisions. This included R&D, production, marketing, and sales. The CEO was given complete authority to make his own decisions. In addition, a company called "Lannet-Israel" was registered in the Netherlands. The sales and distribution network was based on distributors and they marketed Lannet products independently. Lannet was now operating under its original name and was recognizable for its Ethernet solutions for computer networking.

## Conclusion and Future Implications

A recent meta-analysis of the existing body of research (Stahl and Voight, 2008) suggested that cultural differences account for only a small proportion of the variance in post-acquisition integration outcomes. These findings suggest that the relationship between cultural differences and post-acquisition performance is complex, and that unidentified moderator variables may be obscuring the effect of cultural differences on acquisition performance.

As noted by Maltz (2003) in her analysis of intercultural differences in several cross-border M&A deals in the Israeli high-tech industry, ".....it isn't black and white. It's necessary to sit down together and decide what will be done our way and what will be done yours. It's necessary to examine which things are unacceptable in other cultures. It's necessary to simply say, 'This ought to be uprooted and that should be preserved.'"

Contrary to Morosini and Singh (1994), Morosini (1998), Morosini, Shane, and Singh (1998), who reached the conclusion that national cultural differences are always beneficial to the performance of an acquisition, we argue based on the findings of our study that each M&A requires a "tailor-made" post-acquisition integration approach and an appropriate implementation. This is because an inappropriate post-acquisition integration approach or an inadequate degree of implementation can negatively affect acquirer performance.

Moreover, according to Pablo (1994), if the acquiring firm imposes all its practices on the acquired company, many of these practices are likely to be incompatible, undermine post-acquisition integration efforts, and eventually result in negative performance on the part of the acquiring company. Conversely, if the acquired firm is granted an excessive degree of autonomy, it can take several years until the underlying synergies are realized, which can have a negative effect on acquirer performance.

Tarba (2009, unpublished dissertation) found that there is a significant difference in the extent of the fit between the integration approaches that should be and were actually adopted by the acquirers according to Haspeslagh and Jemison's model (1991). A large sample data about M&A deals in the Israeli high-tech industry between 1990 and 2006 shows that only 42% of M&A transactions in the sample show a fit. Based on a model that embraces national

culture dimensions, corporate culture differences, and the synergy potential between the combining entities Weber, Tarba and Reichel (2009) suggested that the reason for the poor performance of acquiring companies can be the failure to adopt the integration approach required in each individual case.

We explored the case of Lannet's acquisition by Madge to avoid treating the post-acquisition integration process as a "black box" and provide new insight into it. Our case study analysis does not presume to encompass all variables and processes that affect M&A performance, but we believe that it is sufficiently comprehensive to elucidate a significant amount of variance in the results of post-acquisition integration effectiveness and overall performance in cross-border M&As.

Finally, our findings suggest that executives of the acquiring firm should pay as much attention to the choice of level of integration and cultural dimensions during the pre-merger search process and post-merger integration as they do to the effects of national and corporate culture differences. The challenges associated with the ideal integration type, and the ability to successfully implement the intended integration approach should be considered during all stages of the M&A, including screening, planning, negotiation, and the interventions that take place during the post-merger integration period.

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## INNOVATIVE MARKETING OF TAKAFUL IN THE US TO CATER FOR AN AFFLUENT MARKET

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### **Abstract**

This research was conducted to measure the awareness level, acceptance level and perceived risk of takaful products and services in America. The survey carried out in three states in the US, namely Texas, Tennessee and Georgia was eventually to gauge the potential demand for it. The American Muslim population which forms the basis of the sampling frame for this research was determined from various sources and finally the number forming the research sample though small, provided an insight into their perception and attitude towards the product. This study found that, American Muslims are receptive towards takaful products and services, though their awareness level is pretty low. Their positive response and eagerness to change as well as a likelihood of adopting a new product is reflected in their high acceptance level and low perceived risk on its introduction, hence holds a very high potential demand in the US. The North American market, therefore, holds the future for a potential cross-border alliance between current takaful operators or Islamic insurance companies operating in established markets elsewhere to form joint-ventures or alternatively, collaborate on sharing the pool of human resources and technical expertise with their American counterpart, especially where the economic transaction calls for an interpretation of the Islamic law or Shariah. Consequently, a list of marketing strategies befitting the nature of takaful product is provided as recommendations.

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**Keywords:** demand, takaful, Islamic insurance, awareness and acceptance level, perceived risk, Shariah or Islamic law

## Introduction

In the last twenty years, Islamic finance was never heard off in mainstream America although it has made its impact in many countries in the western world. Europe especially, has been experiencing phenomenal growth rates in this sector for close to a decade (Financial Times, 2007). Takaful or Islamic insurance, a Shariah-compatible risk intermediation financing tool created in response to the need to support the Islamic banking and financing system became an instant demand. Regulatory authorities of many countries who were initially skeptical on commercial banking and insurance based on a strict interpretation of the Holy Quran are now convinced after three decades that it is expanding and here to stay.

In the US, the earliest regulatory move made by the Federal Reserve to oversee the functioning of Islamic finance came into effect in 1997, when the New York branch of the United Bank of Kuwait requested approval for a residential net lease-to-own home finance product (ijara wa isqitina) (Baxter Jr., T.C, 2005). On the other hand, takaful or Islamic insurance, the lesser known in the market, started out with the participation of Reliance National fronting on behalf of Takaful USA Inc., offering takaful products back in 1996. At present, although there is no full-fledged takaful operator or takaful companies in the US, there is however, a takaful network (financial institutions offering Shariah-compliant products) operating in New York, New Jersey, Illinois, Michigan, Ohio, Connecticut, Indiana and Houston and the list is expanding.

There is positive trend in the growth of takaful networks in the US and a number of factors emerged evidencing that there is a vast market for this product. Firstly, the Muslim population in the US and Canada is found to be growing at a percent point higher than the national average, annually. Secondly, the revival of the Islamic practice in socio-economic activities amongst Muslims in the US makes this product even more relevant in their financial endeavor to ensure adherence to the Shariah. Thirdly, the increase affluence amongst the Muslim American community and the need for economic security is also creating the demand for takaful. Fourthly, there is a large increase in educated Muslim American population over the last 20 years and literacy as well as awareness of such products dictates demand for a product similar to insurance but Shariah-compliant to insure their assets. Finally, an increase in life expectancy over the years has pushed the demand for life insurance or alternatively family takaful because of the benefits offered to people during old age.

## Overview on the Growth of Islamic Finance and Insurance in the Global Market

Islamic finance came to the fore and started to appear in financial centers of the Muslim world beginning in the mid-1980's. Its continued growth has been attributed to the desire by Muslim populations for a socio-political and economic systems based on Islamic principles. According to various expert estimates, there are more than 100 financial institutions

operating in more than 45 countries practicing some form of Islamic finance and the industry have been growing at annual rate of 15-20 percent per annum (Bhatty, 2001; Jaffer, 2006; Islamic Finance, 2007). The market current annual turnover is estimated to be around US70 billion and projected to hit the US100 billion mark very soon. The products and services ranged from financial services such as commercial and merchant banking, leasing activities, insurance services, securities and asset management, corporate finance, underwriting and other related services.

Islamic insurance or takaful crept into the scene as a complementary product/service that was necessary to support the banking and commercial sector. After more than 25 years, beginning from a small operation in Sudan in 1979, it has grown into a substantial market force with 107 takaful and retakaful operators (Islamic insurance and reinsurance companies) and cooperatives with an additional 200 takaful windows operated by non-Islamic financial institutions worldwide (Abouzaid, 2007; Srivasta and Surana, 2006) accumulating a total takaful contribution income of US4.3 billion in 2005. The 1999 estimated size of 1.2 billion (current estimate is 1.6 billion) Muslims around the world and growing at 2.9 percent per year are indicators predicting that this unique business is going to expand further ([www.factbook.net/muslim](http://www.factbook.net/muslim)).

### **Islamic Insurance or Takaful as an Alternative Commercial Contract for Muslim Consumers**

Takaful contract comprises of a multi-tier contracts designed to eliminate those elements found to be in contradiction with the Shariah. Basically, there are three contracts simultaneously signed between the participants as well as between the participants and the takaful operator. Elaboration on the contracts applied is appended in Figure 1 below.



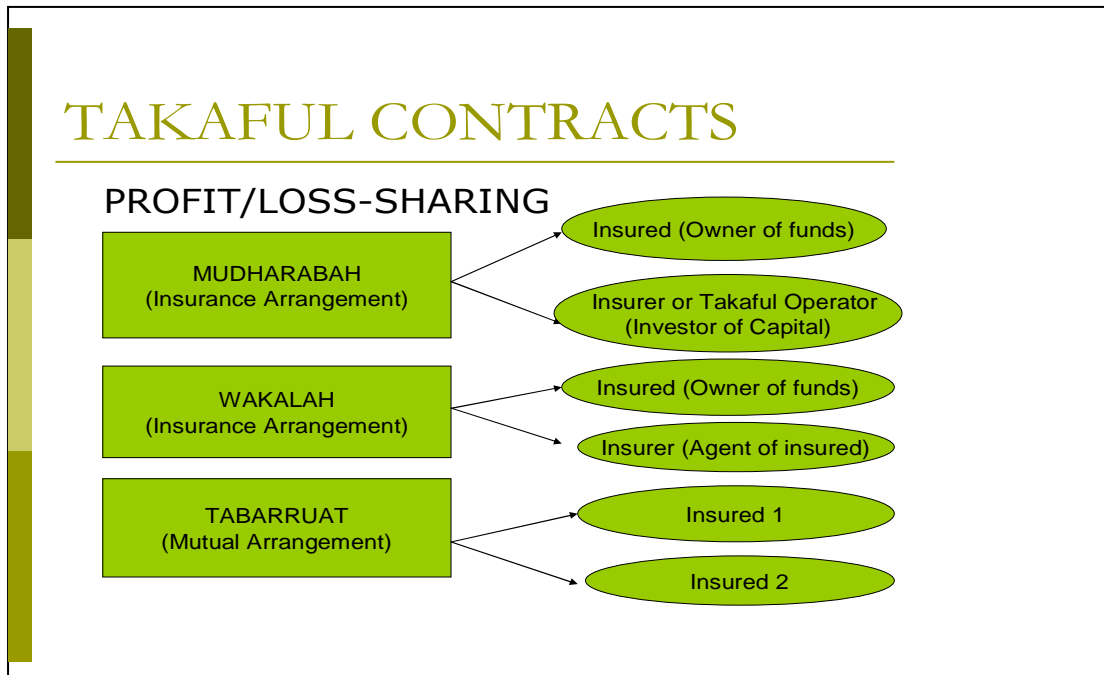


Figure 1: Takaful Contracts

### 1st Contract – Contract of Donation or Tabarru’at contract

The wording of the document is modified to include the principles of takaful which substantially changed the illegality of the insurance policy. To address the issue of gharar (uncertainty) and maysir (gambling) in the compensation mechanism, all Muslim scholars have agreed that it should be stipulated in the takaful agreement, that, although it is signed separately by each participant to the scheme, it is assumed to be concluded among all the participants who agree to compensate themselves mutually and cooperatively, and also designated the insurance company, in this case the takaful operator as simply an agent who manages the takaful fund for the benefit of the participants. The contribution (premium) is paid as a donation and not as an obligation in an insurance contract. The contract changes from a mu’awadat to a tabarru’at, i.e. from an exchange contract to a charitable contract.

### 2nd Contract – Contract of Profit Sharing or Al-Mudharabah

The second document between the participants and the takaful operator stipulates that the latter manages the takaful fund on behalf of the participants and uses his expertise and his efforts as well as skills to undertake the role normally taken by insurance companies or insurers to pay compensation and to invest the accumulated (contributions) premiums in Shariah-compliant business pursuant to the Al-Mudharabah contract. As noted above, since riba (usury or interest) is prohibited in Islam, suppliers of funds, in this case, the participants to the takaful scheme become investors instead of creditors. The provider of financial capital and the entrepreneur (takaful operator) share business risks in return for share of the profits. The ratio for profit-sharing of returns on investment is determined at the initial signing of the

agreement. The usual business practice is 70:30, or 60:40 depending on what have been agreed upon at the outset.

### **3rd Contract – Contract of Agency or Al-Wakalah**

Due to the diversity of Muslims and their interpretations of the Shariah pertaining to what are the allowable business practices, this has resulted in other contracts being introduced. While the majority of the takaful operators in the Far East use the Al-Mudharabah contract, those in the Middle-East have opted for the Al-Wakalah (takaful operator represents the participant) contract. Usually profit-sharing is absent in this contract, however, the operator is paid a fee for services rendered.

## **Operation of the Takaful Concept**

The following explanation on how the takaful concept is operationalized in both Family Takaful (Life Insurance) and General Takaful (Non-Life Insurance) is given below.

### **Family Takaful Operation**

The plan offered under the family takaful is similar to the conventional insurance plans, with the objective of encouraging the participant to save regularly (premium or contributions), earn investment returns, the halal way and obtain compensation in the event of death prior to maturity from a mutual aid scheme. On the decision of the amount to be insured, it is not the insurer or takaful operator who decides on the amount, rather, it is the participant who decides how much he/she is going to contribute. A minimum amount however is set or additional contribution is needed, to ensure that the amount collected should be sufficient to cover those participants if they are classified as abnormal risk due to their medical condition (e.g. diabetes, heart patient, etc.), type of occupation undertaken (e.g. hazardous or blue collar jobs), his/her hobbies or habits (e.g. parachuting, race car drivers, or a smoker, etc.), which in general would put the fund to a disadvantaged if the negative characteristics of the participants is not given due attention.

Each contributions made by the participant is divided and credited into two separate accounts, namely the Participants Account (PA) and the Participants Special Account (PSA). The larger amount directly goes into the PA which is meant for savings and investment only. The smaller amount goes into the PSA on the basis of tabarru'. The amount credited into the PSA normally ranges between 2 to 9 percent depending on the age of the participant and the period selected by the participant (10, 15, 20, 40 years, etc). If the participant dies before maturity date (e.g. in the 3rd year from a 20 year policy), the nominee will receive compensation as, illustrated below and elaborated in Figure 2:

Amount from the PA account for 3 years

- Profits from investment in the PA account

- 17 year payment from the Tabarru' fund or PSA account (mutual assistance from the other participants);

However, if the policy matures after 20 years, the participant is entitled to receive only:

Contributions for 20 years from the PA account

- Profits from investments in the PA account

If the participant decides to surrender after 15 years, he is entitled to receive only:

Contributions for 15 years from the PA account

- Profits from investments in the PA account

No return of the money in the PSA account will be granted to the participant in cases of surrender and maturity because of the agreement to donate it on tabarru' basis to help other less fortunate members. If however, a net surplus is generated after valuation by the actuary, the participant can expect some to be allocated to him/her for policies that mature or surrendered.

The participant's special account (PSA) comprised of the following elements:

1. Retakaful (similar to reinsurance to spread the risks to other takaful operators or retakaful operators).
2. Claims reserves to pay for outstanding claims and general reserves which fluctuates in percentage depending on the amount of claims made on the fund, the larger the claim, the higher is the percentage increase and vice versa.
3. Unearned takaful contribution is used when the participant misses or default in the premium installments, the amount of shortfall will be taken from the reserves as well to make up for the difference.

The amount received after investment of the PA fund will further be divided between the takaful operator and the participant according to an agreed profit-sharing ratio (usually 70:30 or 60:40). Two forms of surplus are acknowledged by both the operator and the participants:

1. Profits derived from investment, where the percentage agreed upon will be added on to the PA account of the participants and the balance credited to the shareholders' fund.
2. Surplus derived from prudent underwriting and operations will be given to the participants and operator only after the PSA account has been satisfied, i.e. deductions for claims and general reserve, retakaful and unearned takaful contribution.

# LIFE INSURANCE OR FAMILY TAKAFUL (LONG TERM SAVINGS & INVESTMENT PROGRAM)

## Operation of Family Takaful

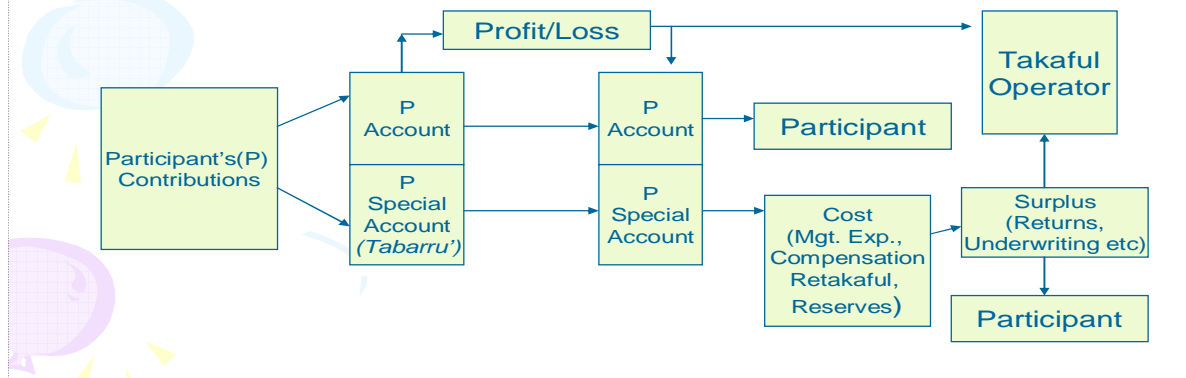


Figure 2: Operation of FamilyTakaful

### General Takaful or Non-Life Operations

In this branch of business, usually a larger portion of the participant's contribution, about 90 percent goes into the tabarru' fund (PSA) while 8-10 percent goes into the PA fund, mainly because this is a yearly policy requiring funds to be available immediately if and when a claims occurs within the year. Because this is purely a mutual protection plan on a short-term basis, the contributions paid are wholly on the basis of tabarru'. The ratio for profit-sharing is different usually on 50:50 basis. The participants also share on mudharabah basis on the investment profits as well as underwriting surplus (Figure 3).

### Background of the Study

#### Historical Perspective of Muslims in America

##### Islam in America - How it all began

According to history, Islam first came to the US in 1717 when a group of Arabic-speaking slaves arrived from Africa. Later, Muslims from the Middle East started to immigrate to the US from Syria, Lebanon, Jordan and Palestine around 1875, to work as migrant laborers. The majority was uneducated, unskilled and poor, but eventually, hard work and persistence gradually improved their socio-economic conditions and many remained in the country to become citizens. The second migration occurred in the 1930's and third wave of immigration began after the second world war, between 1947 and 1960's, with the largest group coming from Palestine, Egypt, Iraq and Eastern Europe (Yugoslavia, Albania, Soviet Union). Most were fleeing their country due to political reasons and were searching for a better and secure place to live. The last wave which began in the 1970's and lingered on until the present time

brought English educated and modern migrants who went on to join the labor market and participate in affluent American society (Haddad, 1986).

## **Profile of Muslims in America**

### **Muslim Population in America**

Haddad's (1986) estimates of Muslims in the US came from three different sources in the 1980's. It varies from 600,695, based on the numbers computed by Max Kershaw of the Zwemer Institute of Pasadena, 9 million by Warith Deen Muhammad of the American Muslim Mission and 3 million by two Muslim scholars who had been studying the growth of the Muslim community, namely Dr. M. Arif Ghayur of St. Lawrence University and Dr. Raquibuz Zaman of Ithaca College. However in the 21st century, the Cornell University (2002) study puts the number at around 8-9 million, while a Pew 2007 study extrapolated from their database that Muslims in America numbers around 2.35 million, with 1.3 million household (Pew Research Center, 2007). This researcher however, feels 6 million is the more realistic number based on various documented records and given the variations in the actual figure. Firstly, statistics from sources of population growth in the US, estimated that in 1990 there were 5 million Muslims (Zakaullah, 1999), then Thomas (1999) in 1992 and 1997, conducted a survey commissioned by the United Bank of Kuwait in the US, put the figure at a rough estimate of 4 percent of the population at the time as 10.4 million. All these calculations seemed to indicate that Muslim population is between 5-10 million and expanding with a growth rate far exceeding the national American population, at 6 percent per annum compared to 0.6 percent for the latter. At this yearly growth rate, the population would reach to close to 10 million by 2017 (although some studies suggest 16 million by 2014). Besides the natural population increase, international migration also will result in an increase in the number more Muslims in the US in the near future. If numbers are to be assigned indicators of demand for takaful, the present time seemed ripe for takaful to be introduced in the market, in order to serve the need of this minority group.

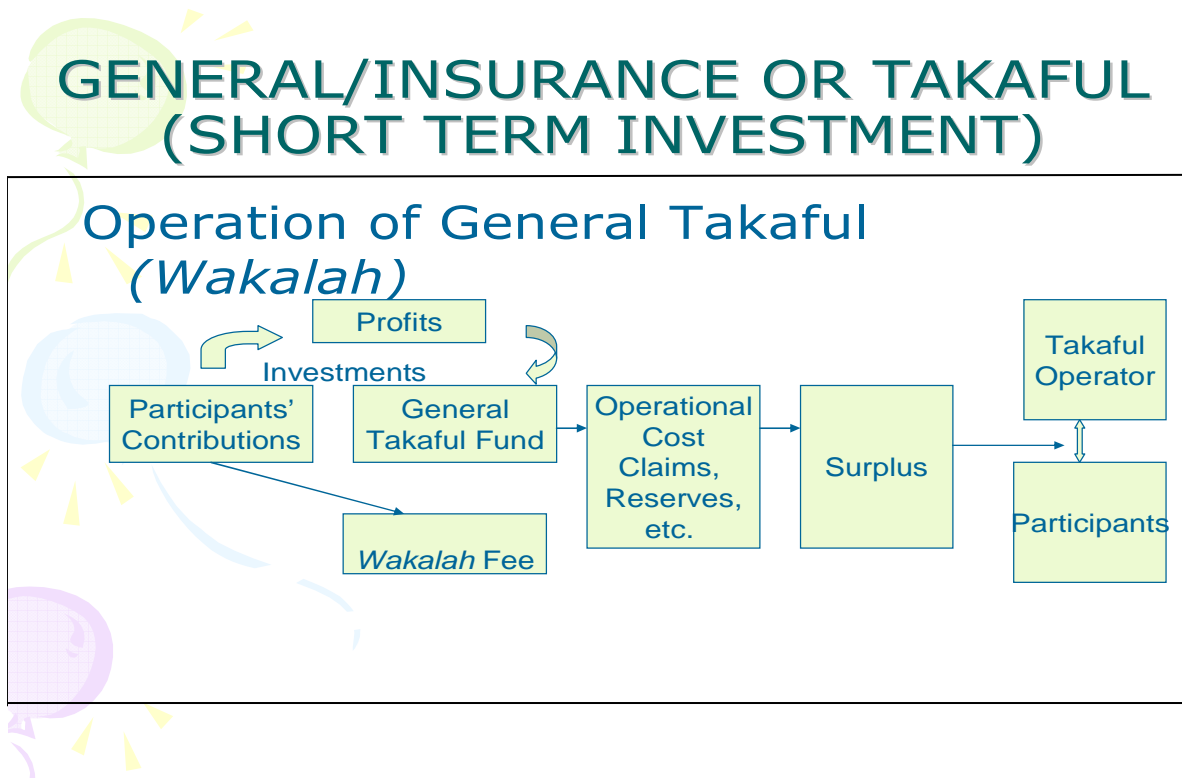


Figure 3: Operation of General of Non-Life Takaful

## Demography and Psychographic Traits of Muslims in America Dictating Potential Demand for Takaful

### Education

American Muslims are demographically younger in their composition in comparison to the national US average with 56 percent below 40 years old (Pew, 2007) and 13 percent are 55 years or older. The Zogby International survey (2001) estimated, 62 percent have Bachelors degree or higher, the Cornell University (2002) survey gave a higher estimate of 67 percent, while the Pew (2007) study and the US Census Bureau (2000) gave a lower average of 25 percent only. At 50 percent or more of the population having at least tertiary education, there are signs that *takaful* products and services may have a place in this community. Studies have shown that literacy have an impact on awareness level of products or services and with half the population educated up to tertiary level, American Muslims are potential target market for *takaful* operators (Table 2).

### Affluence

Affluence has resulted in the need for economic security. A 1987 survey on Muslim heads of household in New England found their average annual income to be more than US\$30,000, with an average household size of about four persons. Another survey conducted in 1996 (Thomas, 1999) on 2000 mosques and 250 schools in the US found the median income to be US\$40,000, while the US population average earnings then was US\$32,000 whereas the latest Cornell University (2002) studies showed in excess of US\$50,000 per year, and the Pew (2007)

study cited 26% of the Muslim population earning more than US\$75,000, and 39 percent earning between US\$30,000 to US\$74,999. Thus it is only natural that insurance or its equivalence will be a potentially sought-after product. With the American Muslims' income well above the average US population, (Table 1), this only serve to suggest that their disposable income for investment and accumulation of assets will definitely create a positive demand on economic security which makes them a major force to be considered as potential consumer and investor in Islamic banking and insurance products and services. Further breakdown in ethnicity of the Muslim population, yet carried out in another study, found that Muslims of Arab and South Asian origin tend to be more affluent and have a more sophisticated outlook on financial needs with 25 percent of the community pre-disposed towards Islamic finance, which technically puts the potential market to be 520,000 Muslim household (Thomas, 1999) 16 years ago and hence, could have doubled by now. In the same Cornell University study, it was found that 67 percent of American Muslim is planning to buy a new car every 3.3 years which will potentially push the demand for property-casualty insurance products or its alternatives.

#### **Positive population growth rate**

Statistics indicated that the sources of population growth in the United States comes from three components, namely natural increase, domestic migration and international migration. The most significant change comes from international migration from the 1850's to the present (Table 1). The US immigration policy allows for between 2-3 percent international migrations per year. Migration could occur from many parts of the world but the most significant amongst Muslim countries are from the Asian region especially Western Asia (India, Iran, Afghanistan and Middle-Eastern countries) and Africa (US Census, 2005). Going by country of origin, the Sub-Saharan Africans, Indians, Arabs, Iranian and the Turks forms the largest number, typically Muslims by birth, who have been accorded the legal permanent resident status. If this trend continues, this augurs well for the Islamic finance and insurance sector. According to the Cornell University study (2002) from Allied Media Corp., of the estimated 290 million US population, 3 percent or 8-9 million with 2.3 million households are Muslims. The average Muslim family size is 3-4 persons. This number is growing at a rapid rate compared to the national growth rate of the US population and expected to double to 16 million by 2014.

<i>Demographic/Psychographic</i>	<i>American Muslims</i>	<i>American Population</i>
<i>Population</i>	8 million (3 percent of total US population)	299 million
<i>Population Growth Rate</i>	6 percent	0.9 percent, 0.6 percent*
<i>Income</i>	>US\$50,000/year	US\$42,158/year
<i>Education (College graduate or higher)</i>	67 percent	44 percent
<i>Age Group (18-49)</i>	89.3 percent	45.2 percent
<i>Occupations – Professional category (engineer, physician, dentist, IT, corporate manager, journalist, teacher etc.)</i>	44 percent (20 percent are students)	**15.2 percent (professional); 10.5 percent (executives, administrative & managers)
<i>Residing in the largest (population) states in the US (Domestic migration)</i>	California (16%); New York (n/a); New Jersey & Indiana (4%); Michigan, Virginia, Texas & Ohio (3% each)	*California (21%), Texas (7%), New York (14%), Florida (12%), New Jersey (5.2%), Illinois (4.1%), Virginia, Maryland, Georgia, North Carolina (average 2.04% each)
<i>International Migration based on legal permanent residents flow to US (approximate increase by percentage)</i>	1970's 1980's 1990's – (1990-1998) 2000's – (2000-2006)	33% 50% -12% 4%

Table 1: Muslims in US: Population, Statistics, Demographic Factors – Year 2002

Source: Cornell University Study (2002) from Allied Media Corp;

\* Legal permanent residents in Year 2000-2003 – Source: Population Reference Bureau (2007)

\*\* Employment by occupation 2006, US – Source: <http://bls.gov.emp/empllo97.pdf>

### Religious Practice of the American Muslim population

The Pew (2007) study concluded that American Muslims take their faith seriously. The study mentioned that 72 percent say religion plays a “very important” role in their life, while only 9 percent admit to not being affected by religious beliefs. Of this percentage, 66 percent attend mosques on a regular basis. This finding has implications on this research because for those who attested to be observant Muslims, or having a high score on religiosity, which affect decision making on financial matters as interpreted by the Al-Quran, takaful would certainly appeal to this group because of its adherence to Shariah or Islamic law.

### Problem Statement

A number of reasons have been cited for the potential expansion of takaful in new markets elsewhere. Yusof (1996) says, Muslims in general, felt the need to practice Islam and applying its rules and regulations in total. Secondly, Muslims desire a financial system that is able to create a truly Islamic economy for the sake of the ummah or the people in the country. Thirdly, with the establishment of the Islamic banking and finance system there became an inherent need for takaful products and services to complement its services and other offerings. According to Hindawi (2005), currently there are many Muslim minorities living in



the West who are keen and interested to purchase Islamic products and services, hence the West provides a potential lucrative market for the establishment of takaful business there. The following objectives have been formulated to aid in this research:

### **Research Objectives**

1. To examine the awareness level of American Muslims affecting potential demand for takaful products and services
2. To assess the perceived risk of the American Muslims on the introduction of takaful products and services in their community
3. To determine the acceptance level of the American Muslims community towards takaful products and services
4. To investigate the demographic and psychographic factors affecting potential demand for takaful products and services

### **Research Significance**

1. Three percent Muslim population (approximately 6 million) expanding rapidly in North America is a potential market for the takaful products to compete with other conventional insurance products.
2. American insurance companies keen to open an Islamic insurance window to complement the existing conventional insurance products offerings can benefit from the Shariah council members and technical experts of established takaful operators from other countries to provide knowledge and training
3. Takaful companies planning for global expansion could distinctly single-out the North American market, the third largest country in terms of world population to be a potential target market.
4. Vast investment funds, pulled out by Arab/Muslim countries after September 11, 2001 could be channeled back into the American financial market.

### **Research Methodology**

An opinion survey technique using a structured question designed for this study was conducted to capture the potential demands for takaful in the US. Four different dimensions to measure demand elucidated from the marketing discipline to assist in data gathering was used in this study and these are, the awareness level, acceptance level, risk perception level and demand level. One additional dimension, religious observance or religiosity was also included as a moderator which this study feels is vital for influencing the demand for takaful due to the religious significance of takaful. The population for this research comprised of all American Muslims in the US, numbering around 6 to 8 million. A sampling frame using convenience sampling technique was used in this study, sourcing them from a number of

Islamic centers or mosques (masjid) during the Friday obligatory prayers when the most number of Muslims would congregate at the mosques and also during public lectures organized by the Muslim Student Associations of various academic institutions in the US.

## **Literature Review**

### **Theoretical Framework**

#### **Planned Behavior and Intentions**

It is hypothesized that demand for takaful requires knowledge preceding decision to participate, hence the Theory of Reasoned Action (TRA) developed by Ajzen & Fishbein (1980) relates to factors influencing a particular behavior which are mediated through intentions. This theory theorizes that external factors such as demographics and personality influence beliefs and motivation which in turn affect attitudes towards behavior and subjective norms which ultimately establishes intentions. Hence, in psychological research literature, intentions have been empirically proven to be the best predictor of planned behavior in many situations. However, Azjen (1991) further emphasized that not all behaviors are under willful control, rather, many are beyond voluntary control. This shortcoming was addressed in his Theory of Planned Behavior (TPB), which added on to the two earlier factors, i.e. attitudes towards behavior and subjective norms, an additional factor, which is, perceived behavioral control. While the first two factors reflect perceived desirability of performing a particular behavior, the third factor indicates perceived feasibility of performing the said behavior, given the person's belief that individuals have both the control and capabilities to carry out a desirable behavior. If a person perceived no difficulty in performing a specific behavior, then he is bound to act, without hesitation in a positive manner in order to achieve a desired outcome. It is presumed that if the affluent American Muslims are religiously observant then the need to comply to religion and be able to practice religion in totality will compel these individuals to participate in takaful.

#### **Demand for Islamic insurance and Theory of Planned Behavior**

In line with the advocates of TRA and TPB, acceptance of Islamic insurance is considered an important antecedent to the demand for it. If participants to the Islamic insurance scheme perceived that being a Muslim require them to act and practice what is preached and this relationship determines their fate in their hereafter, their behavioral intentions and attitudes would reflect their beliefs. This study specifically wishes to look at intentions of participating in an Islamic insurance scheme which would truly reflect them as being a true Muslim. However, before such measure could be determined, it is imperative that their awareness level of the product be established first.

## **Explanatory Variables**

### **Variables affecting demand for Islamic insurance or takaful**

A number of studies have shown the relationship between insurance demand and economic variables such as income; demographic variables such as, age, marital status, education, number of dependents and social-cultural variables such as culture and religion (Zelizer 1979; Wasaw, 1986; Browne & Kim, 1993; Fukuyama, 1995; Enz, 2000; Beck & Webb, 2003). Various theoretical models have been derived to explain the demand for life insurance and income as concluded by Yaari (1965), Neumann (1969), Lewis (1989), Truett & Truett (1990), Browne & Kim (1993) and the most recent, Beck and Webb (2003) using income per capita or Gross National Product (GNP) per capita as proxy for income. Enz (2000) and Ward and Zurbruegg (2002) went on to illustrate that the higher the levels of income in the developed economy (US, Japan and Europe), the less insurance product is consumed due to the product reaching a saturation point while the reverse is true for the less developed economy, Asia in particular. On the other hand, the demographic and psychographic variables such as age, education and number of dependents have been shown by previous studies as having a great influence on insurance consumption (Burnett & Palmer, 1984; Beenstock et al. 1986; Truett & Truett 1990; Outreville, 1996; Beck & Webb, 2003; Hussels et al., 2005). This study also hypothesizes that certain economic and social factors, namely, income, gender, education, race and age act as determinants for takaful demand.

While this study acknowledges the effect of economic and demographic factors leading to a positive demand for insurance, the main focus of this research on takaful demand leaned more towards the social-cultural factor, i.e. religion acting as a moderating variable having a positive influence on the buying behavior (takaful participation) of Muslim consumers. The social aspect analyzed by Zelizer (1979), Wasaw and Hill (1986), Browne and Kim (1993), Enz (2000) and Ward and Zurbruegg (2002), has direct relevance to this particular research. Religion is an important component of a nation's culture. Islam as practiced by the majority of Muslims looks at the individual as a whole and requires total submission to Allah or God as instructed by the Al-Quran. Therefore, the natural outcome of such submission is that all aspects of life are governed by instructions from God through the divine revelation to Prophet Mohammed (pbuh). In practicing Islam, the personal, social, spiritual and material aspect of life on this earth is directly connected to the hereafter. This relationship makes a Muslim individual accountable for his actions on this earth which will determine whether he/she will end up either in heaven or hell for eternity. Due to this very strong tie between religious obligation and one's final destiny, a Muslim behavior is always dictated by religion. A truly observant individual of the Islamic faith will not accept or even wants to be associated with practices, financial or otherwise that will condemn him/her to hell. Therefore, the following hypothesis is derived:

### **Hypothesis 1: Certain demographic factors have a positive demand for takaful**

To summarize the earlier studies, Zelizer (1979) found that religion plays a role in opposing life insurance demand, while the more recent studies by Wasaw and Hill (1986), Brown and Kim (1993), Enz (2000) and Ward and Zurbruegg (2002) also points to the same factor affecting life insurance consumption. Up to the nineteenth century, several European nations also regarded life insurance as in opposition to religion. Both studies conducted by Zelizer (1979) and Wasaw & Hill (1986) concluded that religious intolerance towards life insurance was especially strong in Islamic nations resulting in less consumption of the product. To further strengthened the relationship between religious variable and the negative demand for life insurance, the more recent studies by Browne and Kim (1993), Enz (2000) and Ward and Zurbruegg (2002), showed that amongst predominantly Muslim countries such as United Arab Emirates, Qatar and Kuwait, the purchase of life insurance was significantly less than the global average of life insurance penetration demonstrated elsewhere. These studies seemed to indicate that among Muslims, their religious convictions tend to prohibit them in acquiring life insurance due to several issues found to be in contradiction to Islamic religious beliefs. Particularly when uncertainty as to the outcome of the event being insured, that is the date and time of death; the amount or quantum payable to the beneficiaries when death occur; and the life insurance business itself which is totally dependent on investment tainted with usury or interest which makes it unlawful for a Muslim to be involved in (Yusof, 1996; Rashid 2005).

**Hypothesis 2: Religion acts a moderating influence on the determinants of Islamic insurance or takaful demand, i.e. a positive relationship exist due to the removal of the prohibitive elements as dictated by Shariah.**

### **Awareness of Islamic insurance or takaful**

Literature in retailing and marketing disciplines have shown a strong correlation between consumers' awareness and acceptance of retail brands with four criteria, namely, recall, recognize and confidence to be of great significance (Sofiah et al., 2003 & Blackwell et al. 2001). Similarly Berman (1995) states that "awareness comes with the recognition of an unfulfilled desire of goods and services not patronized before and aroused a desire to try something new." Taking the issue of demand from a marketer's point of view, the majority concluded in the past researches, to show that for a product to be highly demanded, there has to be a high level of awareness factor. This factor is achievable only if the population is literate and exposed to the various marketing and promotional materials explaining the desirability of the product or service being offered. The first research objective addresses the question of awareness level to accept new products and practices and this is measured using

the four dimensions developed by (Kleiser and Mantel, 1994) i.e. antecedents to product familiarity. The first dimension relates to the cognitive effort in trying to single out a product or service, i.e. decision making performed with minimal effort. The second measure is the analysis of items, i.e. the extent consumers access all relevant information in decision making, thirdly, the elaboration task requiring a number of intervening facts that must be computed in the mental faculty to enable an inference to be made. Finally the memory skill, one's ability to remember product related information. Thus the recall and recognition skills, followed by confidence, differentiation, identification and prestige experienced in the decision-making process of customers, leads to a level of awareness which eventually results in acceptance or rejection of a product or service. Consequently, this study hopes to establish that if the respondents are familiar (via recall and recognition) with the product/service, they will be able to recall and recognize the product/service and having heard or purchase before, they will have the confidence to make future purchases. Differentiation, on the other hand, allows the consumer to realistically distinguish between an Islamic and conventional insurance product/service, hence be able to identify with the product/service in a way that reflects his /her own inclination or religious tendencies that Yusof (1996) mentioned earlier.

The author had intended to investigate whether there could be a positive demand for takaful if it were available and made known to the public. Hence to create a demand, both awareness level and acceptance level must be heightened. In trying to explain consumer behavior and how they will react to certain stimulus (in this case, takaful products), by studying the consumer behavior in the context of purchase decision involvement i.e., when they are truly aware and accepted the product or service in question as being in line with their religious beliefs, will in turn create the demand for it. To capture the market with the introduction of a new service or product, the customer must be truly convinced and be innovative enough to change and adopt it.

### **Hypothesis 3: Increased awareness level will positively increase the demand for Islamic insurance or takaful**

#### **Acceptance of Islamic insurance or takaful**

Introduction of a new service or product has its inherent risk, both to the new customer and the supplier. Firstly, customers must be truly convinced that the product or service meets with their needs. New products or services comes with a lot of uncertainties, therefore manufacturers of products are normally cautious in dealing with customers of new products lest the first impression or their first encounter result in a disastrous outcome. It follows that, to be able to explain the demand in terms of the acceptance for takaful, the consumer themselves need to be defined within the concept of innovativeness and tying-in this with the purchase decision involvement concept, which is defined as the extent of interest and concern

that a consumer brings to bear upon a purchase-decision task (Mittal, 1989), the natural outcome of such a relationship is the positive demand for takaful.

**Hypothesis 4: High acceptance level will positively increase the demand for Islamic insurance or takaful.**

#### **Risk perception on takaful demand**

One other issue that remains to be tested is the risk perception level of the potential customer. Greene (1963) conducted two consecutive studies more than 40 years ago, using attitudes towards risk as a measure of insurance consumption and consistently found that no significant relationship exist between these two variables. Given the current standing on this issue, this study proposes to use a somewhat similar variable, that is the customers' perception towards takaful and to test whether they perceive that a new, innovative product in the market maybe something that they should be cautious or accept it as truly Shariah-compliant. At this point the author conjectures that application of this variable have a direct negative relationship with the dependent variable, demand.

**Hypothesis 5: The higher the risk perception on a new product, the lower is the demand for Islamic insurance or takaful**

### **Research Methodology**

#### **Research Model**

The independent variables used in this study to explain the purchasing (participation) behavior for takaful include: (1) awareness level, (2) acceptance level, (3) risk perception (4) demographic variables, namely, income level, education level, age, gender while religious observance or religiosity acting as moderating variable affecting the effects of the relationship between the independent variables on the dependent variable, demand, either positively or negatively (Figure 2).

#### **Research Design**

This is an exploratory-hypothetical research in search of a potential but unknown market for the introduction of a new product/service. Surveys will be undertaken in the US to get a mental picture of the current feelings of the American Muslims towards the takaful industry and the type of market openings that would be of interest to them. Consequently, theories developed and hypotheses formulated for this research will be subsequently tested. Findings will be able to establish correlations between variables and a conclusion derived to determine whether the American market would be a feasible market and ready for takaful.

### **Sampling Design**

Texas, home to a large number of Muslims and having a sizeable number of Muslim adults was used as a reference point and the respondents required for this survey. A convenience sampling strategy was adopted for this survey because the majority of Muslims could be located within the mosques during the obligatory Friday prayers. Earlier research also used the mosque and Islamic center to source out respondents (Thomas, 1999). 43 respondents managed to complete the questionnaire handed to them over a period of 2 months. Other than the mosques, an additional 17 students from the University of Texas who attended public lectures on Islam organized by the Muslim Student Association also formed part of the sample. Respondents from the states of Tennessee and Georgia were participants to a public lecture at other institutions namely the Islamic Center of Memphis, Tennessee, and Georgia State University, Atlanta, Georgia and the attendees, 27 and 30 respondents respectively, completed the questionnaire distributed to them during the lecture. Finally, a total of 117 respondents were used as the sample size but only 92 questionnaires were usable.

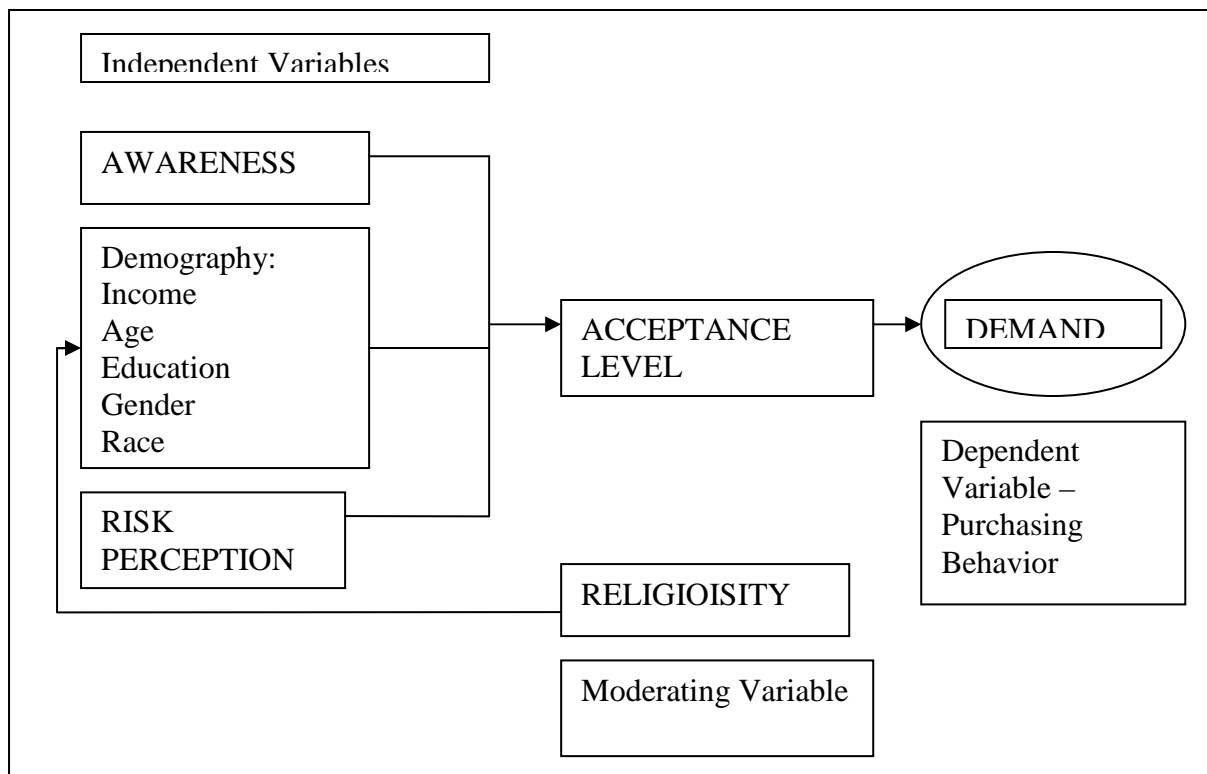


Figure 2

### Research Instrument & Questionnaire development

The 4-page questionnaire used for this research consist of items deemed necessary to test for variables, namely, awareness and acceptance level which in effect seek to measure the potential demand for takaful while the variable, risk perception level is assumed to retard demand and religious observance, acting as moderating variable. Lastly, the respondents' demography which have been tested in numerous researches and found to be significantly associated with insurance purchasing behavior will be tested accordingly.

In determining the demand for a product or service, the author developed questions based on the Purchase Decision Involvement (PDI) questionnaire developed by Mittal (1989) which defines the PDI construct as the extent of interest or concern that a consumer brings to bear upon a purchase-decision task. The ensuing questions are then adapted to suit this particular research. Initially the question asked was, "how interested are the respondents over this particular product and how concern they are over its purchase given the various level of religiosity. Then the next question posed to them is, "how interested they would be if the price is the same as those offered by the conventional insurer, and how interested they would be if the price is higher than the latter?" On the awareness level, the nine questions were prepared using the scales related to Consumer Opinion Leadership and Opinion Seeking Expertise namely, the cognitive effort, analysis items, elaboration items and memory items developed by Kleiser and Mantel (1994) and adapted accordingly to suit this particular



survey. The acceptance level uses the scales related to consumer innovativeness developed by Venkatraman and Price (1990) designed to measure the cognitive innovativeness in the preference for engaging in new experiences with the objective of stimulating the mind (senses). The final variable related to risk perception, where the author developed six questions meant to test the level of perceived risk associated with the product or service using the Belief in Material Growth Scale developed by Tashchian, Slama and Taschian (1984), changing the questions to suit this particular research. Finally, the entire questionnaire developed was categorized into 5 sections, using a 5-point Likert-Scale score (1 = strongly disagree, 2 = somewhat disagree, 3 = neutral, 4 = agree, 5 = strongly agree), while to the question on “knowledge of takaful” the score changes to 1 = no knowledge, 2 = some knowledge, 3 = not sure, 4 = knows quite a bit, 5 = substantial knowledge). The question on religious observance, the scale changes to 1 = not an observant Muslim, 2 = somewhat an observant Muslim, 3 = occasionally observant Muslim, 4 = observant Muslim and 5 = very observant Muslim and finally a numerical or categorical score is used where relevant (e.g. male or female, age categories etc.):

For the pilot study 30 sets of questionnaires were distributed to Muslim students from the University of Texas who attended public lectures on Islam. The first round of changes and modifications were made to the wordings resulting in the second set of questionnaires which initially had dimensions measuring awareness, acceptance and risk perception level of the respondents. This set was administered to respondents in Memphis, Tennessee. In the third set and the final questionnaire, the dimensions for demand were included and this set was administered to respondents in Georgia and Texas only.

## Analysis & Findings

Firstly, the inferential statistics on the relationship between the independent variables, the 4-dimensional measure of demand for takaful, i.e. awareness level, acceptance level, risk perception level and demographic and psychographic factors were obtained. Secondly, the demographic profile of the sampled respondents and if there exists any significant differences in their demand for takaful in terms of gender, age, income, race and education. To begin with, Cronbach alpha was used to determine reliability of the questionnaire (Table 2):

<i>Demand components:</i>	<i>No. of Items</i>	<i>Percentage</i>
<i>Awareness level</i>	9	.891
<i>Acceptance level</i>	5	.767
<i>Interest=Demand=Purchase</i>	4	.819
<i>Risk Perception</i>	6	.830

*Table 2: Reliability Analysis using Cronbach Alpha*

Due to the already high scores obtained, that is, from 77 percent to close to 90 percent, indicated that the questionnaire is reliable. Table 3 below, depicts the descriptive statistics of all the dimensions, namely, demand and its relationship with awareness, acceptance and risk perception level. The correlation test showed that the demand level, as expected, is significantly and positively related to the awareness and acceptance level and negatively related to the risk perception level. Also in line with the findings of earlier researches this study confirms that the acceptance level is also correlated to the awareness level. Putting it simply, high awareness level and acceptance level creates a high demand for takaful, while a high level of perceived risks creates a negative demand for takaful products and services. This research therefore confirms and accepts hypotheses 3, 4 and 5, i.e. increased awareness and acceptance level will increase demand, while decreased risk perception will increase demand. Meanwhile, the demographic variables were tested using the non-parametric, Chi-square test.

		<i>Demand</i>	<i>Risk Perception</i>	<i>Awareness</i>	<i>Acceptance</i>
<i>Demand</i>	<i>Pearson Correlation</i>	1	-.342(*)	.519(**)	.546(**)
	<i>Sig. (2-tailed)</i>	.	.025	.000	.000
	<i>N</i>	60	43	43	42
<i>Risk Perception</i>	<i>Pearson Correlation</i>	-.342(*)	1	-.333(**)	-.206
	<i>Sig. (2-tailed)</i>	.025	.	.004	.080
	<i>N</i>	43	74	74	73
<i>Awareness</i>	<i>Pearson Correlation</i>	.519(**)	-.333(**)	1	.343(**)
	<i>Sig. (2-tailed)</i>	.000	.004	.	.003
	<i>N</i>	43	74	74	73
<i>Acceptance</i>	<i>Pearson Correlation</i>	.546(**)	-.206	.343(**)	1
	<i>Sig. (2-tailed)</i>	.000	.080	.003	.
	<i>N</i>	42	73	73	73

Table 3: Summary Statistics for the Demand Components Using Correlation Test

\* Correlation is significant at the 0.05 level (2-tailed).

\*\* Correlation is significant at the 0.01 level (2-tailed)

### Religious Observance and Demographic Factors

Of the final sample, only 43 (in Texas) responded to the questions on demand while the rest were not administered this part of the questionnaire at the beginning. The profile of the respondents and their religious observance together with the mean scores for the independent and dependent variables are presented in Tables 4-9 below. The majority of those sampled were male, aged between 25 to 45 years old (66%), having an income of below US100,000 (majority, 40% were below US40,000). The most number of the respondents surveyed are South Asians, followed by African Americans and Middle-Eastern Americans and 70 percent of respondents have either college degrees (47%) or some college education

(23%). In total 77 percent of respondents say they are religiously observant Muslims [PEW study indicated 72% who says religion plays a “very important” role in their life, with nearly one-quarter (23%) of American Muslims having a high level of religious commitment (attending mosque at least once a week, praying all five times every day and reporting that religion is “very important” in their lives)], whereas only 26% demonstrated a relatively low level of religious commitment. Further, this study found that generally, men are religiously more observant compared to women (46% vs. 27%) with a mean score of 4.13 vs. 3.36 respectively.

Within the age groupings, the below 35 tend to be more religious than the rest, (52%), this result concurred with the PEW (2007) survey which found those below the age of 30 (60%) identify themselves as Muslim first instead of Americans first, with about half of them saying they attend mosque at least once a week compared with slightly more than a third of Muslims age 30 and older. In general however, those aged 45 and below have mean scores of 4.56, 3.94 and 3.67 respectively, higher than the older group (Table 6). Contrasting religious observance with economic affluence, those earning between US\$40,000 and US\$60,000 (mean score of 4.00) demonstrated a higher religious commitment compared with the others, 3.84 and 3.50 and below for those below US\$40,000, US\$60,000 and above, respectively) (Table 7).

Between races, the African American and South Asians (20% vs. 27%) demonstrated a higher commitment to religion compared to the rest (12% and below), and further analysis of the mean scores showed the African Americans led at 4.44, Middle Eastern Americans at 4.40 and 4.08 for the South Asians (Table 9). Education being one of the main factors to push demand for takaful, saw the college graduate & some college education being the most religiously observant (60%), but the mean scores put the high school graduates as being the most religiously observant at 5.00 followed by the graduate school at 4.49, college graduate and some college education at 4.15 and 4.27 respectively. This illustrates that education and religious observance to a certain extent has a role in determining the demand for takaful (Table 9).

### **Demand for Takaful and Demographic Factors**

Non-parametric test using Chi-square to establish correlation between demographic factors and demand for takaful found no significant relationship between gender, race, income and education except for age (p-value greater than alpha at 0.10). Further analysis conducted (depicted in tables 5 to 9) to determine whether any significant differences emerged in the means between demographic factors, namely gender, age, income, education and race in determining the demand for selecting financial products failed to show any significant differences with demand for takaful, except gender and age showing significant differences, (partial acceptance of hypothesis 5). The hypothesis that as a person aged, there is a likelihood that the demand for takaful products will increase due to the benefits to be derived from such an investment in old age, proved to be the point in case here. As for gender, both

male and female respondents showcased the same tendency for a high demand for takaful products and services. To see whether any difference exist in the demand between males and females, ANOVA (analysis of variance test) showed significant differences between the sexes ( $p$ -value = 0.015 at alpha level of 0.05) and Chi-Square test also confirmed the findings ( $p$ -value = 0.006 at alpha level of 0.05), hence confirming that both genders are equally in need of the product, but between the two groups, males generally demanded takaful products more than females at 94 percent and 72 percent respectively. This phenomenon could be explained in the economic context of the 'breadwinner', where the male respondent being typically the head of the household makes the final decision on the purchase of financial investment products.

The other variables although not producing the desired results could be explained in the following manner. To begin with, irrespective of educational achievements, income levels and racial background, the demand for takaful is real, because deductions made from the frequency analysis of all the respondents sampled showed a high mean score for interest or demand for takaful, (a mean of 4.2, median of 4.5 and mode of 5.0), on top of an awareness level with a mean of 3.4, and acceptance level with a mean of 4.41. To strengthen this argument, the author cross-tabbed interest (demand) with the cost of takaful and found that price is not an issue to determine demand because a positive relationship was established showing that if the cost of takaful were the same or more than conventional insurance, the demand will still be there ( $\chi^2 = 0.022$ ,  $\chi^2 = 0.004$  respectively, at 0.05 alpha level). The demand seemed to be inelastic once the customer accepts takaful as a product of their choice due to its adherence to Shariah and their religious commitment which indirectly dictate that they accept this product as being part and parcel of claiming to be a religiously observant Muslim. This illustrates that religious observance has the potential to influence the demand for takaful once the respondents is assured of it being Shariah compliant and that such a product existed and being offered in the market. With 77 percent of the respondents claiming to be religiously observant Muslims in their decision-making on financial matters, the potential for such product/service gaining grounds in the US seemed real and should not be taken lightly by takaful operators' hopefuls.

<i>Gender</i>	<i>Percentage (based on numbers responded)</i>	<i>Religious Observance (Percentage)</i> <i>Scores of 4 or 5 only were computed</i>	
		<i>Within Groups</i>	<i>Within Sample</i>
<i>Male</i>	63	86	46
<i>Female</i>	37	60	27
<i>Age (Years)</i>	<i>Percentage</i>		
<25	29	67	19
>25<35	43	78	33
>35<45	23	89	19
>45<55	5	67	5
>55	-	-	-
<i>Income (US Dollars)</i>	<i>Percentage</i>		
<40,000	40	80	36
>40,000 < 60,000	20	73	15
>60 < 100,000	27	70	13
>100,000	13	67	11
<i>Race</i>	<i>Percentage</i>		
<i>African-American</i>	21	89	20
<i>South East Asian</i>	10	50	5
<i>Middle-Eastern</i>	12	100	12
<i>South Asian</i>	31	85	27
<i>Caucasian</i>	7	33	2
<i>Sub-Saharan African.</i>	5	50	2
<i>Others</i>	14	60	7
<i>Education</i>			
<i>Graduate school</i>	20	71	10
<i>Some graduate school</i>	7	50	4
<i>College graduate</i>	47	81	34
<i>Some college</i>	23	81	26
<i>High school graduate</i>	-	50	2
<i>Some high school</i>		-	-

Table 4: Profile of Respondents: Demography and Psychographic Characteristics

	<i>Male (Mean)</i>	<i>Female (Mean)</i>	<i>t-value</i>
<i>Demand</i>	4.51	3.89	2.75**
<i>Observance/Religiosity</i>	4.13	3.36	2.59**
<i>Acceptance</i>	4.32	4.26	.405
<i>Awareness</i>	3.47	3.14	1.79
<i>Risk Perception</i>	2.04	2.40	-1.85

Table 5: T-test for Gender

\*\* $p < 0.01$ , \*  $p < 0.05$

	< 25 years	25 – 35 years	> 36 – 45 years	> 45 – 55 years	F-value
<i>Demand</i>	4.42	4.41	4.44	2.58	8.22**
<i>Observance/Religiosity</i>	3.67	3.94	4.56	3.67	2.14
<i>Acceptance</i>	4.31	4.36	4.28	4.00	.354
<i>Awareness</i>	3.35	3.47	3.30	2.48	2.21
<i>Risk Perception</i>	2.31	2.10	2.04	2.42	.542

Table 6: One-way ANOVA for Age Group

\*\* $p < 0.01$ , \*  $p < 0.05$ 

	< 40,000	>40 – 60,000	>60–100,000	>100,000	F-value
<i>Demand</i>	4.44	4.50	3.87	3.83	2.37
<i>Observance/Religiosity</i>	3.84	4.00	3.50	3.56	.505
<i>Acceptance</i>	4.55	4.40	4.22	3.99	2.99*
<i>Awareness</i>	3.26	3.47	3.56	2.75	2.58
<i>Risk Perception</i>	2.36	2.16	1.93	2.32	1.02

Table 7: One-way ANOVA for Income (US Dollars)

\*\* $p < 0.01$ , \*  $p < 0.05$ 

	Caucasian	Middle- Eastern Am.	Others	African Am.	South East Asian Am.	South Asian Am.	Sub- Saharan Am.	F-value
<i>Demand</i>	3.33	3.80	4.20	4.25	4.56	4.61	5.00	2.207
<i>Observance/ Religiosity</i>	3.00	4.40	3.80	4.44	3.50	4.08	3.50	1.520
<i>Acceptance</i>	4.27	3.96	3.80	4.51	4.45	4.46	5.00	1.222
<i>Awareness</i>	2.67	2.13	3.58	2.89	3.38	3.52	3.83	4.853**
<i>Risk Perception</i>	2.89	2.93	1.76	2.41	1.91	2.31	2.58	1.169

Table 8: One-way ANOVA for Race

\*\* $p < 0.01$ , \*  $p < 0.05$ 

	College Graduate	Some College	Some Grad. School	Graduate School	High School	F-value
<i>Demand</i>	4.15	4.27	4.31	4.49	5.00	.645
<i>Observance/Religiosity</i>	4.05	3.69	3.50	4.14	3.00	.959
<i>Acceptance</i>	4.30	3.91	4.36	4.53	5.00	1.825
<i>Awareness</i>	3.30	3.15	3.03	3.33	3.17	.230
<i>Risk Perception</i>	2.25	2.47	2.08	1.87	3.17	1.665

Table 9: One-way ANOVA for Education

\*\* $p < 0.01$ , \*  $p < 0.05$

### **Awareness Level and Demographic Factors Effecting Demand for Takaful**

It is to be expected that respondents with a high awareness level on takaful, developed an equally high interest or demand for the products and vice-versa. It is also reasonable to expect that those with high acceptance level and expressed a concern for the choice of financial products also developed a high demand for takaful products and services and vice-versa. As the ANOVA results indicated, respondents with a moderately high awareness level demonstrated a high demand for the takaful products and services. Firstly, between males and females, although the awareness level is between low to moderately high (3.14 vs. 3.47 respectively), the demand level for both is equally high, mean scores at 3.89 vs. 4.51 respectively. Secondly, analysis between age groups also illustrated a generally low to moderately high awareness level from 2.48 to 3.47 but the demand level reflect a moderately high to very high mean score of between 2.58 to 4.44. Thirdly, the economic factor, income, also showed low to moderately high awareness level (2.75 to 3.56) but commanding a high demand level, with a mean score of 4.50. The fourth demography, race showed a yet very low to moderately high mean score for awareness level (2.13 to 3.83) but the demand level mean score registered from moderate to very high at 3.33 to 5.00. The fifth factor, education also showed a low to moderately high awareness level amongst all the respondents (3.03 to 3.33) but the demand level shot up to a mean score of 5.00 starting at a low of 4.15.

What this survey demonstrated is, the admission by the respondents that generally they are moderately aware of takaful products and services but due to the belief that it complies with Shariah, hence their willingness to be innovative, and felt the compulsion to make the necessary adjustment to their decision making on choice of financial products to be in line with their religious beliefs. Hence, the religiosity factor has somewhat influenced the acceptance level to warrant a demand for takaful product.

### **Acceptance Level and Demographic Factors and Demand for Takaful**

This survey found that the majority of the respondents' acceptance level for takaful products is high ranging from a moderately high to very high mean score of 3.80 to 5.00 coupled with a high to very high demand for takaful, regardless of gender, age, race, incomes and education level. ANOVA conducted on each demographic factor namely gender, age, incomes, race and education found that acceptance level ranges from high to very high for each category. Furthermore, there is a distinct differences in the acceptance level in the category of income level and further analysis found that those earning US\$40,000 and below seemed to have the highest acceptance level for takaful products. From an earlier analysis of respondents earning this amount, it was found that the majority of them falling into this category is young and is college students. Extracting the results of the PEW study on religious observance which indicated that it is those respondents who are below 30 who identified themselves as pious Muslims, the deduction here is, future takaful operators should be targeting the college students who are currently the below 30 age group who are

religiously committed and would definitely opt for Islamic financial products and services once they graduate from college and starting out on their career and planning for their future.

### **Risk Perception and Demographic Factors and Demand for Takaful**

The results of the analysis found that the demographic factors, namely, gender, age, income level, race and education indicated that the risk perception on takaful product and services although somewhat new, does not pose as a risk. Mean scores ranged from very low to low, hence explains the high to very high demand for the product/service.

### **Moderating Influence of Religious Observance on Demand for Takaful**

An analysis of covariance or ANCOVA was carried out to determine whether the independent variable is indeed having an effect on the dependent variable (demand for takafu), with the influence of religious observance, an extraneous variable or covariate being statistically controlled during the analysis. This attempt was to reduce error variance due to individual differences. The output of the ANCOVA indicates no main effect for all the demographic factors ( $p > .05$ ), except age & race because the homogeneity of variance assumption have been violated (Levene's test is significant [ $p < .05$ ]), but otherwise, a significant relationship exist between demand and religious observance ( $p < .05$ ). Thus we conclude that when religious observance is statistically controlled, all the demographic variables with the exception of age and race (statistically not acceptable due to the violation of the homogeneity of variance assumption), have no influence on the demand for takaful. The researcher's hunch that takaful demand is related to religious observance or religiosity is confirmed to a certain extent, thus explaining the weak and almost no relationship between the demographic factors and demand for takaful (see Tables 11a-11b below).

The religiosity factor, i.e. the respondents' observance of Islamic faith (based on the measure of 1 = not very observant and 5 = very observant) indicating a positive relationship with the demand for takaful to a large extent indicate that religion does play a role in one's purchase (participation) decision of financial products and services and concurred with the previous studies mentioned above. Future or potential takaful operators in the US, needs to be mindful that religious observance of customers plays a very significant role in driving the potential demand for takaful.



Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Noncent. Parameter	Observed Power(a)
Corrected Model	9.483(b)	4	2.371	6.076	.001	24.303	.974
Intercept	22.540	1	22.540	57.767	.000	57.767	1.000
Observance	.069	1	.069	.178	.676	.178	.070
age	9.151	3	3.050	7.817	.000	23.452	.981
Error	14.437	37	.390				
Total	796.778	42					
Corrected Total	23.920	41					

Table 11a: Tests of Between-Subjects Effects; Dependent Variable: Demand

a Computed using alpha = .05

b R Squared = .396 (Adjusted R Squared = .331)

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Noncent. Parameter	Observed Power(a)
Corrected Model	6.836(b)	7	.977	1.920	.098	13.438	.663
Intercept	24.247	1	24.247	47.668	.000	47.668	1.000
Observance	.213	1	.213	.419	.522	.419	.096
race	6.501	6	1.083	2.130	.076	12.780	.676
Error	16.786	33	.509				
Total	782.715	41					
Corrected Total	23.622	40					

Table 11b: Tests of Between-Subjects Effects; Dependent Variable: DEMAND

a Computed using alpha = .05

b R Squared = .289 (Adjusted R Squared = .139)

## Discussion, Conclusion and Recommendations

Reflecting on the outcome of the research, the author summarizes it to be as follows. On addressing the issue of whether potential demand exists amongst American Muslims, the answer is certainly in the affirmative due to the high mean scores and present across all the tested demographic variables, namely gender, age, education, income and race. However, before demand could be effectively established and falling back on the marketing theories, the awareness level of the product/service has to be created first and brought to a sufficiently high level. This research seemed to have certainly confirmed that awareness level to be lacking amongst the respondents. Therefore, the awareness level has to be addressed in a manner suitable for new products or services to be introduced in new markets. Those relevant and salient features that recognizes the religious permissibility of takaful products/services and that it is Shariah-compliant needs to be emphasized on during would-be takaful operators marketing or promotional campaigns which should include visits to academic institutions, giving public lectures, other than print, electronic and mass media advertisements. Given that the target market is a highly educated and affluent group of

potential customers, reaching out to them will not be as problematic. Bearing in mind also that most respondents are highly religiously observant [PEW (2007) i.e. more than 70 percent of American Muslims fall into this category], there need not be a high powered persuasion strategy to capture this market. It is sufficient for the potential takaful operator (s) to embark on a marketing strategy of increasing awareness level, because this factor ties in remarkably well with the demand for the product/service.

The author felt that to develop acceptance for takaful product/service is also not a difficult task to accomplish since this survey found that the majority of American Muslims already identify themselves as being pious Muslims, hence the need to live the life as dictated by the religion would definitely increase their desire and appeal to acquire this Shariah-approved product/service, which is a step towards increasing their religiosity.

As far as demographic variables are concern, although this study failed to establish the relationships as evidenced by previous researches, the conclusion that religious observance outweighs the importance of all other demographic factors, needs to be taken seriously. More so, potential takaful operator (s) promotional strategy need to appeal to the younger generation, the college-going individuals and those below 30 years old, who are the most interested of this product/service. As this research indicated, age indeed showed a significant difference for the demand for takaful products and services. The older groups may or may not be really concern about their choice of financial products because they feel that they have had to live within the limitations of their choice for the last 20-30 years and have no qualms about it being religiously acceptable or not. After all, for some Muslims, their attitude would be, if the benefits that they derived from their financial products or services have served them well for the last few decades, why change? A more drastic effort would have to come from potential takaful operators to change the mindset of this lot. The other demographic independent variable, gender, which this research establishes significant difference with the dependent variable, demand, female American Muslims are not convinced as to the permissibility of this product hence their apprehensiveness towards it. More work would have to be done to convince them of the acceptable status of takaful in the Islamic world. It is also possible that due to insufficient marketing materials or educational materials on this product/service reaching the Muslim public in America, the mechanism and operation of takaful is not known or not adequately understood by both sexes.

Is there a perceived risk in introducing this product to American Muslims? Evidence from the survey finds the majority of the respondents provided a negative response. The fact that a negative relationship exist between this variable and demand, showed that their perceived risk towards this new product does not exist and that they are willing to change, adapt or innovate to indicate their acceptance and interest in it. Even if their current insurer has been providing them with the service, the need to change, to be in conformity with their religious beliefs outweigh the benefits derived from their current insurer. The author further

recommends that the following be undertaken by would-be takaful operator in North America:

1. The target market comprising of a sizable proportion of Muslim households with the most number of adult population residing mainly in the eastern (New York, New Jersey), northeastern (New England states), western (California) and mid-western (Indiana, Ohio & Michigan) and south-eastern (Georgia, Florida, Texas) states of the US. This geographical concentration makes it relatively easier and efficient to serve this market
2. The majority of Muslim adults (more than 56 percent) in the US are those below 40, hence, takaful products should be tailor-made to suit this category of potential customers as well as those above 55 years old, comprising the other 13 percent of the population.
3. Going by ethnicity, priority for marketing of takaful products should be aimed at the South Asians numbering 33 percent, followed by African Americans at 30 percent, Arabs 25 percent and the rest, Africans, Europeans, White Americans, Southeast Asian, Caribbeans, Turkish, Iranians and Hispanic/Latins which comprise between 0.5-3.4 percent of the American Muslims (Brown and Johnson, 2007).
4. Takaful products should be custom-made for American Muslims who are generally more highly educated (with tertiary education) and are more likely to enjoy well-paying professional and technical positions, however, the African American Muslim group (forming the greatest number of American Muslims) tend to be employed in more stable jobs or own small businesses (Thomas, 1993) or engaged in local trade and typically middle class.
5. Promotional materials should appeal to college educated customers and emphasizing on its Shariah-compliance and its acceptance and length of establishment of such business in the Muslim world.
6. Mosques (masjid) and Islamic centers are focal points where most Muslims congregate for the daily five obligatory prayers and the weekly Friday obligatory prayers, therefore, takaful promotions and campaigns should be arranged in conjunction with events organized by such institutions besides academic institutions throughout the US.
7. Public lectures, forums, seminars and other community programs should be organized to explain the mechanics and operations of takaful products and services as a means to increase the knowledge and awareness level of the American Muslim population.
8. From an economics point of view, price inelasticity is deemed to be advantageous to the supplier of products and services and this research findings seemed to indicate the sample is leaned towards this view, however, in the long run, for the sake of competition,

it would be best to keep price as low and competitive as possible for the sake of customer retention.

9. Most established insurers use bancassurance as a marketing distribution channel, similarly takaful operators is recommended to use bancatakaful as a channel to reach out to their consumers due to exceptional growth recorded by takaful operators worldwide. Internet marketing is another alternative distribution channel for this product in the US given the IT savyness of its population.
10. The greatest limitation of this research is the sample size and limited funds available to source out a larger proportion of the population, therefore, it is recommended that to further enhanced the findings, a nationwide survey be conducted in the near future.

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## RELATIONSHIP QUALITY: A QUALITATIVE STUDY IN ATHLETIC SERVICES

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### Abstract

**Purpose:** In today's highly competitive environment characterised by rapidly changing customer needs, loosing customers is costly and enhancing relationship quality (RQ) is important for firms. RQ has been discussed as «a bundle of intangible value that augments products or services and results in an expected interchange between buyers and sellers» (Levitt, 1986). In services, Crosby et al. (1990) define RQ as when “the customer is able to rely on the salesperson's integrity and has confidence in the salesperson's future performance”. Dwyer & Oh (1987) suggest that high levels of satisfaction, trust and minimal opportunism reflect a quality relationship. In services, Crosby et al. (1990) conceptualise RQ with the salesperson through trust and customer satisfaction while others add other dimensions such as the degree of cooperation between the two parties; relationship atmosphere, and the degree of firm adaptation to customer needs (e.g. Woo & Ennew, 2004).

Furthermore, past research has identified many antecedents of RQ including the similarity of the two parties in personality, lifestyle and social class; the experience and customer skills in the products or services provided, and the type of relationship behaviour (Crosby et al., 1990; Boles et al., 2000). RQ has been investigated in various types of relationships including the one between service firms and retail customers (e.g. Crosby et al., 1990; Lang & Colgate, 2003; Athanasopoulou, 2008; Athanasopoulou & Mylonakis, 2009). However, there is no agreement between researchers and the area of athletic services is neglected. The purpose of this study is to identify the dimensions of RQ between customers and providers of athletic services and determine the antecedents of such quality.

**Design/methodology/approach:** This study is exploratory in nature, aiming to develop a better understanding of the concept of RQ and its antecedents in the area of athletic services. This study approached RQ from the point of view of the customer and

collected data through in-depth, personal interviews. The sample consisted of 100 customers of 3 fitness centres and 100 year-ticket holders of 3 major football clubs. The interviews centred on the way customers perceive a high quality relationship with the provider, and on the factors that affect such quality, either positively or negatively. Data was analysed with thematic content analysis (Holsti, 1969).

**Findings:** Findings differ slightly between fitness clubs and football clubs. In fitness clubs, RQ is perceived as a trusting relationship that involves customer satisfaction and commitment, but also requires social bonds with the club's employees; effective cooperation and communication with them in order to have the intended results; and adaptation of services to suit customers' needs. In contrast, the relationship of football club year-ticket holders is perceived as trusting, satisfying for customers and one where customers feel committed to the team, they are members of its family and are loyal to this family. Furthermore, the antecedents of RQ identified do not differ between the two types of relationship and include the quality of the servicescape (environment, machinery and location); the power of entertainment that the customer gets from the service; the quality of personnel and their experience and knowledge in sports; the provider's orientation towards relationships with customers; the duration of the relationship, and certain circumstantial or personal factors such as free time shortage, family obligations or bad weather conditions. Based on these findings a framework is developed for analysing RQ and its antecedents in athletic services.

**Research limitations/implications:** The study extends findings in RQ by analysing relationships in the athletic services market. However, it is qualitative in nature. Future research should quantify the constructs identified and test them in quantitative studies.

**Practical implications:** The results of this study have many implications for management. RQ in football seems to be less complicated than in fitness clubs. Football fans require trust and satisfaction from the service and should be encouraged to commit to their team. On the other hand, fitness clubs should cooperate effectively with customers; develop social bonds with them, and adapt their services to special customer needs. Furthermore, in order to enhance RQ, sport managers should provide a high quality servicescape; entertain customers effectively; recruit a good quality personnel and train it regularly, especially when such personnel is the main service (e.g. football players) and the main medium of providing entertainment; be relationship-oriented and show that through their efforts to enhance relationships; keep customers longer, and take care of any personal / circumstantial factors that can affect RQ. For example, make it easier for customers to exercise faster in fitness clubs or cover stadiums so that weather is not a problem when watching a match.



**Originality/value:** A framework is developed for RQ and its antecedents in athletic services. This can serve as a guide for sport managers in enhancing the value of relationships with customers and therefore, increase the profitability of their business.

**Keywords:** Relationships, Relationship Quality, sports, fitness clubs, football

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## SELECTING SPONSORSHIP PARTNERS AND DEVELOPING THE SPONSORSHIP DEAL: A STUDY OF FOOTBALL TEAMS AND THEIR SPONSORS

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### Abstract

**Purpose:** Sport sponsorship is a rapidly developing marketing practice for firms internationally (Shannon, 1999; Gronkvist, 2000) and football is the most heavily sponsored sport (Bennett, 1999; Rosson, 2001). Due to the increasing financial value of sport sponsorship, the selection of a sponsorship partner and the development of the sponsorship deal are crucial issues for sports businesses. Johnston & Paulsen (2007) find that there are eight factors to consider when evaluating new sponsorship proposals: type of sponsorship; geographic reach; level of involvement; payment type; main exposure method; duration of the sponsorship agreement; fit with brand objectives, and relationship with the sponsorship partner. Also, Thwaites, (1995) finds that the sponsorship deal development process includes six stages: objective setting; screening and selection; contract content; execution of the deal; evaluation and critical success factors while Sack et.al. (2001) argue that from the sport property's perspective the selection and development process of the sponsorship deal includes five major steps: knowing the audience; finding sponsors to fit the audience; making contact with sponsors; packaging a sponsorship proposal, and closing the deal.

Despite the importance of sponsorship, previous research on sponsorship decision-making is limited (Aguilar-Manjarrez, Thwaites and Maule 1997) and marketing managers tend to show a lack of rigor in selecting and managing their sponsorship investments effectively (Kover, 2002). As a result, there is little research on the sponsorship selection and development process as seen from both sides of the sponsorship partnership (sponsors and sponsees) and on the extent of agreement between them. The purpose of this study is to gain a deeper understanding of how sport properties and sponsors select their sponsorship partners and develop the sponsorship deal in football.

**Design/methodology/approach:** This study is exploratory in nature. Nine case studies were conducted involving three professional, premier league football clubs and six sponsoring organizations, two major sponsors of each club. Case studies involved in depth, personal interviews of the managers responsible for sponsorships in each of the participating organizations, the football teams and the sponsors. The interviews were tape-recorded and transcribed in order to retain the rich information provided by respondents. Also, the interviewer collected and analysed any documents pertaining to the sponsorship selection or development processes in order to triangulate data. Data was analysed with thematic content analysis (Holsti, 1969).

**Findings:** The football clubs selected are the three most popular teams in their home country; hold a large fan population, and have competed in UEFA's Champion League Competition many times in the past. On the other hand, all sponsors included in the study are considered successful corporations and operate in telecommunications services; sportswear and sports equipment; banking, and car dealing. Findings indicate that the most important selection criteria used from both sides of the dyad are fit in corporate values or brand value of the two partners; possible revenue opportunities apart from the sponsorship deal, and possible image enhancement from the deal. Also, results show that the criteria used differ between old and new sponsorship relationships; large and medium-sized sponsoring organizations; experienced or not sponsors, and according to the sponsor's industry. Furthermore, both sponsors and sponsees use a structured process for developing the sponsorship deal that includes 3 stages: customer information collection; proposal preparation & presentation or receipt, and Negotiations & Contract Sign. Also, we observe that sport properties only send proposals whereas sponsors only receive; the actors in each stage of the process vary (e.g. departments vs teams vs one-man decisions; own departments vs out-door agencies), and the length of the process is affected by the prior quality and duration of the relationship between the two partners.

**Research limitations/implications:** The study involves nine case studies and has limited generalizability. Future research should extend the number of cases and the industries analysed and substantiate results using quantitative methods.

**Practical implications:** The findings of this study help sport managers to structure and formalize their sport sponsorship selection and development process. This way sport entities and sponsors will be able to select the best possible partners for sponsorship and use an effective and fast, structured process for developing the sponsorship deal. This way they can exploit to the fullest extent the money involved in sponsorship partnerships.

**Originality/value:** A guide is developed for both sport properties and sponsors on the selection criteria they should use when selecting sponsorship partners and a structured, detailed process is designed for developing the sponsorship deal.

**Keywords:** Sponsorship, sponsors, sponsees, football, sports marketing, case studies

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diploma of FIFA, and a diploma of first class coaching and has worked for more than 15 years as a professional coach in all national football categories in Greece. From 2001 to 2006 he has been a marketing consultant to OPAP S.A and from 2006 until today has served as a consultant to OPAP International regarding the strategic and the odds-making decisions of the game "PAME STICHIMA". Furthermore, Dr. Axelopoulos is the author of five books relevant to football science, has published at least fifteen papers in international and greek journals and has participated in many conferences.

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## THE EFFECT OF VALUE CONGRUENCE ON NURSES' WORK ENGAGEMENT AND BURNOUT

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### Abstract

This paper links the academic debate on person-organization fit with the increasingly topical issue of job strain among health care staff. The objective of the study is to find out the effect of value congruence between employees' personal values and organizational values on their burnout and work engagement. Drawing on Person-Organization Fit theories we define value congruence as the compatibility of personal and organizational values. Burnout is a prolonged state of exhaustion responding to emotional, mental, physical, and interpersonal stressors in the job, and is defined by the three dimensions of physical fatigue, emotional exhaustion and cognitive weariness. Work engagement is a positive, fulfilling, work-related state of mind that is characterized by vigor, dedication, and absorption.

One of the sectors where workers are exposed to a high burnout risk is health care. We conducted a survey among 234 nurses working in Vall d'Hebron University Hospital in the Catalunya region of Spain. Estimations of the importance of values, Shirom-Melamed Burnout Measure (SMBM) and Utrecht Work Engagement Scale (UWES) developed by Schaufeli and Bakker (2003) were included in the questionnaire. The respondents were asked to estimate the importance of values separately in their personal life and for their organization. We consider value congruence as a unidimensional construct, incongruence being the opposite of congruence. Thus, we use the absolute differences between the estimations of personal values and the perception of organizational values as a proxy for value congruence.

The findings reveal that differences in estimations of achievement, importance of money and social justice and social responsibility have a negative effect on all three dimensions of work engagement and lead to higher burnout in its two dimensions - physical fatigue and emotional exhaustion. In addition, higher differences in personal and organizational values reflecting emotional aspect of life and work (e.g. passion, empathy, emotional satisfaction) increase emotional exhaustion.

The results of the study are discussed in the light of the recent academic discussion (e.g. Bakker et al. 2005, 2006; Schaufeli et al. 2008, Van den Broeck et al. 2008) on conceptualizing work engagement as an opposite end of the same dimension a burnout, versus a self-standing construct. Our findings imply a conceptual independency of at least one dimension of burnout - emotional exhaustion – from the work engagement notion.

**Keywords:** values, value congruence, burnout, work engagement, health care



## COMMITMENT AND TRUST IMPACT ON PRODUCT INNOVATION AND PERFORMANCE: THE CASE OF PORTUGUESE EXPORTING COMPANIES

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### Abstract

One of the theoretical views usually adopted to explain performance of organizational relationships is the Commitment-Trust Theory (Morgan e Hunt, 1994). This approach states that a customer's commitment and trust on the supplier are determining factors of the relationship performance.

**Purpose:** This paper aims to test the impact of trust and commitment experienced by importers not only on performance but on innovativeness, i.e. the generation of ideas for exporters' new or improved products.

High levels of relationalism and trust have been associated with high performance importers' relationships with international suppliers (Skarmeas and Katsikeas, 2001). Relationship atmosphere has been deemed more crucial in cross-border activities (Leonidou et al, 2002) with companies that keep harmonious relationships (vs. those who keep problematic ones) having three more times clients and more frequent orders. Trust-commitment have been shown as companies' performance key-determinants (Palmatier et al, 2007).

The consequences of trust on critical factors related to performance (Achrol, 1997), on the decrease of transaction costs (Wilson, 1995), on the future interaction between the dyad partners (Armstrong and Yee, 2001), on loyalty (Day, 2000), on cooperation (Morgan and Hunt 1994; Child, 2001) and on conflict reduction (Anderson and Narus, 1990) have already been tested. On the other hand, the consequences of commitment on the performance (Kim and Frazier, 1997), on the relationship profitability (Holm et al., 1996) on the intent to expand business (Ulaga and Eggert, 2006), on the cooperation (Morgan and Hunt, 1994) and on the exporters' tendency to adapt product strategies (Lages, 2002) have also been researched.

**Methodology:** From a sample of Portuguese exporters, surveyed by e-mail, we gathered data on exporter-foreign business customer relationship. The sample was strictly limited for each exporting company, to the relationship with its third most important foreign customer in the previous year. This procedure was previously followed by Rokkan et al. (2003) and Zaheer et al. (1998).

**Findings:** We confirm the literature proposed importance of commitment and trust in a relationship in terms not only of perceived performance, but also in the increased innovativeness of problem solutions.

Both commitment to the relationship and trust in the partner, are found to be positively and very significantly related to the product innovativeness as arising out of those relationships.

We tested the relationships between trust, commitment, and several dimensions of psychic distance (previously found to be related with performance and innovativeness).

Neither trust nor commitment were found to relate with the major dimension of psychic distance, measured both traditionally at the macro level (similarities scale) and at the micro (potential problems scale) level. The significant exceptions are the items that have to do with personal relationship: DISTPREL– level of proximity in the personal relationship with the customer; PROBREL - problems with personal relationship.

**Research limitations:** Importers' trust in, and commitment to, the relationship were evaluated by exporters' perceptions of the levels of these constructs in the relationship. However, the error in the evaluation may be acceptable considering Heide's (1994) findings of a significant correlation between the measures taken from both sides of the dyad.

The trust-commitment with psychic distance interaction effects will be considered in the future.

**Research implications:** The findings may represent a new added value of trustful and committed importer-exporter relationships. These relationships may be a good source of product innovations and product improvements, and, as a consequence, a more suitable approach to better customer needs fulfilment.

**Keywords:** innovation, performance, commitment, trust, international business, psychic distance.

## CORPORATE GOVERNANCE AND ORGANIZATIONAL WELLBEING AMONG RELIGIOUS CONGREGATIONS

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### **Abstract**

**Purpose:** The specific challenges faced by governance of religious congregation - as particular organizational form - are addressed, in terms of organizational wellbeing.

**Design/methodology/approach:** Conduction of in-depth, semi-structured interviews to 50 consecrated people. Interviews were analyzed using content analysis, run through the software T-Lab (analysis of word occurrence and co-word mapping, analysis of Markovian sequences), as well as discourse analysis carried out by two independent judges. Dynamics and contents of organizational wellbeing are observed in the light of the need to reconcile religious teaching with organizational considerations.

**Findings:** Values and meanings are assigned to personal relationships as a way to live one's own faith through the organizational life; differences among members coming from different cultures as well as between younger and older members on how normative organizational control is perceived and represented as well as on the role and the tasks expected from leaders and followers.

**Practical implications:** Findings suggest that training is required among religious congregations, in order to raise more awareness, and competence on diversity management and organizational dynamics

**Research limitations/implications:** The group reached is a convenience sample, not a statistical representative sample. Future research may be developed with a larger sample, using a comparative approach between religious congregations and other nonprofit organizations, as well as among different types of organizations (profit, non profit, public ones).

**Originality/value:** the paper suggests that organizational wellbeing can be used as a competent strategic management conceptual framework in the governance of religious congregation, just as for other organizational forms

**Keywords:** organizational wellbeing, corporate governance, religious congregations

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## TEAM WORK IN NON PROFIT AND PUBLIC ORGANIZATIONS

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### Abstract

**Purpose:** The aim of the present paper is to compare team work performance among Non profit, Public sector and Profit organizations.

**Design/methodology/approach:** Administration of the Aston Team Performance Inventory (ATPI), developed by West () to a group of about 600 employees from Non profit, Public sector and Profit organizations. In terms of data analysis, we have first of all verified the dimensional structure of the questionnaire in comparison to the original version through a factorial analysis run via SPSS 16.0. In addition, we have provided a series of descriptive statistics and tested with a series of ANOVAs different hypothesis concerning the relationship between team efficiency and well-being and working sector.

**Findings:** The three groups of participants showed differences among each of the three considered dimensions: input, processes and output. Non profit employees emerged as the group where the team work is more effective.

**Research limitations/implications:** The group reached is a convenience sample, not a statistical representative sample. Further development of this research might compare groups of Non profit, Profit and Public Sector employees from different countries.

**Practical implications:** The most important practical implication concerns the possibility to understand which dimensions of team work are to improved in each group and which ones can be considered as an example of excellence, therefore to be a reference for good practice.

**Originality/value:** Comparison among Profit, Non profit and Public organizations are scarce in literature . Furthermore, it is often questioned whether instruments and methods used among Profit and Public organizations should be used also in NPOs, and ATPI emerged as an effective tool also for those organizations, whew team work is quire widespread. Finally, this is the first effort to validate and adopt e the ATPI in the Italian context.

**Keywords:** Team work; Npos, Public and Profit organization; team effectiveness

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## **ORGANISATIONAL MEMORY A PRACTICAL TOOL FOR CROSS-CULTURAL KNOWLEDGE MANAGEMENT**

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### **Abstract**

Competitive and leading companies around the world are aware of their employee's knowledge capital as their key success factor (Drucker 1999, Raich 2000, Khamseh and Jolly 2008). Accordingly, Harris (2001, in Ford and Chan, 2003) stressed that knowledge is an endless resource stored in the mind of the employees. Furthermore, he signalled that probably is the only resource that when being used enhances its value. On the other hand, Alavi and Leidner (2001, in Ford and Chan, 2003, p.12) suggested that "knowledge increases in value with use, while disuse may lead to loss or forgetfulness".

In managerial science the organization's capability for knowledge creation becomes a priority stressed Baets (2005). He regarded the process of gathering information and knowledge in an intelligence pool as crucial where the content of this pool is understood, connected and exploited. Therefore, part of this intelligence pool should be seeing "in organisational routines, processes and norms" (Davenport and Prusak 1998, p.5).

Knowledge management (KM) is an emerging field according to Rubenstein-Montano et. al. (2001) and currently receiving considerable attention (Kakabadse, Kakabadse, Kouzmin, 2003) because it represents a key business activity of incalculable importance (Zuber-Skerritt 2005, Holden and Tansley 2007 and Dignum and Eijk 2007). For Ordonez de Pablo's (2004) KM represents an organizational strategy to achieve relevant knowledge flows to the right people at the right time. She also regarded KM as a useful tool "which helps people to share and display knowledge, skills and abilities, so that they improve organizational performance" (p.2). Additionally, Dignum and Eijk (2007) suggested KM for employee development, sharing of best practice, product innovation due to its better and quicker decision making, faster response, better customer, and the avoidance of reinventing the wheel handling. For these reasons, building up an organizational memory (OM) is the cornerstone for KM to excel.

### **Building an organizational memory for cross-border co-operations**

Today, more than ever before international co-operations are a way to expand or survive. Within these international co-operations the flow of employees and intrinsically the flow of knowledge deserve special attention and care to obtain its full

benefits. Based on Peters (1996, in Chen, 2005) Kruse (2003) and Ortenblad (2004) an organizational memory has the ability to acquire, retain, and retrieve knowledge and expertise for practical application. These phases of building up OM in international cooperation are very important because: a) capture and store all the valuable information and knowledge possessed from each partner in the co-operation and b) stores the combination of knowledge and, consequently, the creation of new knowledge between the partners.

This newly created knowledge and experiences with its mistakes and successes must be stored in the OM created by both international partners as the bases for the continuous development of the co-operation in itself and its members. The way how the knowledge is captured might range from written documentation to videos, tapes or any other way agreed upon. If this OM failed to be implemented due to e.g. fast growing rate, concentration on markets and customer demands, or lack of time as addressed by Chen (2005) very precious experiences and knowledge will be wasted.

All the knowledge and information available from both parts should be gathered and stored in an information-knowledge system ready to be used for all the members of the co-operation. This information-knowledge system should be a technological tool for the actors to retrieve and use the knowledge. Attention has to be paid to the development of this IT tool (software), since for many actors the usage of new technological tools is often problem laden.

Based on a broad literature review about KM and OM the researcher suggested the knowledge management system could embrace 3 different design elements:

1. Technological and contextual: The installation of an International Co-operation Master Program (INCOMP) for the exclusive usage of the co-operation members. It should enable all the members to have easy access to all types of searchable documents.

2. Distributive: The dissemination of the INCOMP can be done by following the 3Ps of knowledge dissemination suggested by Holsapple (2003, p.112): "Pull, Push, Point. Pull refers to individuals going to a knowledge repository and requesting explicit information. Push, refers to information being sent to one or more individuals as it becomes available e.g. via intranets. Point, refers to receiving instructions on where to find knowledge".

3. Physical: The availability of a discussion room where constantly sessions of joint work, understanding/explanations of procedures, questions and answer, discussions of interesting topics, experimenting and sharing of feelings can flow freely in a knowledge creation area is regarded as an excellent arena to share tacit knowledge.



After having applied and tested the knowledge, it is very important that the users have the capacity and the time at their disposal to reflect on it in order to re-design and improve knowledge on a long-term basis.

**Keywords:** knowledge management, organizational memory and international co-operations

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## THE CULTURE OF BUSINESS - POINTS OF DEPARTURE, POINTS OF ARRIVAL

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### **Abstract**

Over the past 30 years or so, business schools have begun to take culture as a business factor seriously. Today the cultural impact on business is such that it is ignored neither by businesses themselves nor by the business schools teaching it. By now everybody is aware of Geerd Hofstede's seminal work on cultural Dimensions. Also there has been criticism of and further development on his work (e.g. McSweeney (2002) or Ailon (2008)). However, it is still far from clear what the relationship between cultural studies and business studies is.

In my paper I will examine the two perhaps most influential and popular textbooks for management studies (Johnsons, Gerry et al, Exploring Corporate Strategies (Prentice Hall 2008, 8th ed.) and Wheelen, Thomas et al. Strategic Management and Business Policy (Prentice Hall 2007, 11th ed.)) and delineate what their treatment of culture is. It will become obvious that while much of the statements made do carry with them a certain sense of validity, many of their references to cultural research is outdated and no longer considered up to date in cultural studies. Especially its postmodern turn has not made it into business and management textbooks.

As a conclusion I will offer ways forward in using internet technology to integrate newer findings into business curricula and into the fabric of management studies and practices. In particular, the art of glocalisation as a sine-qua-non for modern businesses in the Mediterranean region will be discussed, including my own experiences gleaned from working as business consultant in the area (cf. Briel, Holger, Glocalisation – Electronic Media and Business in South Eastern Europe, Skopje: Blesok, 2009).

**Keywords:** Critique of 'Culture' in Management Studies, Recent studies on (Business) Culture, The Eastern Mediterranean and Business Culture, E-culture and E-business.

## CULTURE AS A BARRIER TO INTRAPRENEURIAL SUBSIDIARIES BEHAVIOR

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### Abstract

The entrepreneurial dynamic within large companies is often referred to as: corporate entrepreneurship or intrapreneurship (Basso, 2004; Khaled et al, 2010). According to Carrier (1997), the intrapreneurship is considered as "the implementation of an innovation by an employee, a group of employees or any individual working under the control of the company". Thus, in the case of multinationals, the intrapreneurship can be seen as the development of the units' roles. Birkinshaw and Hood (1998) introduced the idea of the reactive and enterprising subsidiaries. These subsidiaries characterized as a dynamic intrapreneurial with a lot of initiative, can be a real support leading to the implementation of a transnational strategy. Indeed, the recognition of the local context richness (resources, Knowledge, network) encourages the collaboration between Headquarters and subsidiaries and the development of multi-country products (Subramaniam, 2006; Hennart, 2009). The consideration of the local and global specificities characterizes these multi-country products as hybrid. To implement this strategy, it is necessary to consider a favorable environment for intrapreneurial project (Carter, 1994).

However, in an international context, multinationals are particularly confronted to the divergence of values, historical rites and specific customs to each local context (Barmeyer and Davoine, 2004). These specificities, considered as a real barrier to the intrapreneurship development, must be taking into account. To explore this field, we mobilized the intrapreneurial subsidiaries behavior (in the context of the transnational strategy of innovation) and the cross-cultural approach. Through the analysis of a French Multinational telecommunications case (OPERACOM) we try to understand: How to manage cultural barriers to promote intrapreneurial subsidiaries behavior? The subsidiary in Poland of this French group has proposed the creation of a new innovation transnational approach based on a new structure which aims to integrate knowledge and ideas from different units. The study of this group, despite the importance of the enterprising character of the Polish subsidiary, highlights the importance of cultural barriers. These barriers appear through the cognitive maps that describes the perception of managers from Headquarters and Polish subsidiary (Polcom). It shows that the three cultural dimensions (national culture, corporate culture and business culture) should be taken into account and handled differently according to each activity of the innovation process. The mobilization of the cross-

cultural dimensions and the intrapreneurial subsidiaries behavior for this study leads to managerial proposals.

**Keywords:** Corporate Entrepreneurship, culture, subsidiaries, innovation.

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## THE IMPACT OF THE ICELAND VOLCANO CRISIS ON A HOTEL CHAIN IN TUNISIA: EL MOURADI HOTELS

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### Abstract

Several researchers focused their studies on crisis management and the impact of the latter on the tourism industry (Hystad et al. 2008; Rittichairuwat et al. 2009 and Wu et al. 2009). In April 2010 the Iceland Volcano eruption caused disruptions in many tourism destinations nearby or far away, from which Tunisia.

The actual research study aims to identify the impact of the Iceland Volcano crisis on the hotel chain El Mouradi in Tunisia, and to pinpoint and explore the strategies implemented to recover from this natural disaster. The empirical research consists of interviews with directors being part of the hotel chain. The data collected from the interviews was analysed by means of the content analysis.

The finding suggests that the hotel chain El Mouradi implemented an internal crisis cell in order to manage the impact of the latter on tourists. In addition, the strategies applied differed from one market to another, according to their agreements with tour operators and travel agencies.

**Keywords:** crisis management, crisis impact, recovery, post crisis

## MANAGING POLITICS UNDER CRISIS TIMES: FROM REVEALED PROBLEMS TO COMPLEX SOLUTIONS

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### Abstract

**Purpose.** This paper has the intention to demonstrate that in emerging countries the party president's interest is more important than the party's doctrine in political pattern formation and this is best understood in the bilateral patterning of rich individuals belonging to the doctrine model. This may emphasize a dramatic impact of such individuals in the future of the country due to their implication in both political and economic life.

**Design and methodology.** Our analyse starts with making connections between the complex systems and political pattern formation that defines a predictable arrangement set up inside the society, between individuals, in different spaces as political development prior elections. The types of patterns of political types can be conveniently described as simple or complex. Simple patterns involve equivalent structures arrangement considered to be used to develop similar mechanisms for both political sides. Complex patterns are those that are made up of elements that are not equivalent to one another. Promoting opposite ideologies, the implementation of each policy generates non-equivalent patterned during post electoral application of the winner doctrines.

**Findings and Originality/value.** The theoretical approach let space for understanding how such patterns behave. This is the so-called positional information. The positional information relies in three different stages where a) an elected politician must become aware of its position within a developing group. This is demonstrated by the way he respects his electoral statements, b) the mechanism to make each decision within a field obtain a unique value or address, c) the interpretation of the positional address to open a particular manifestation of further activity by the expression of a particular set of decisions. It is found that if in developmental biology, pattern formation refers to the generation of complex organizations of cell fates in space and time, in politics pattern formation is controlled by party management or president. The conclusions show that promoting democracy at micro level; certain individuals and organizations beneficiate from the politicians' aid and are developing into agents of change. As the effects of democracy promotion on the meso and macro levels look rather mixed, such results indentify the weakness of young democracies and the



necessity to improve the role of civil society in close connection with the business representatives.

**Keywords:** crisis, complex systems, behaviour, management, politicians, democracy.

### **Biography**

Carmen Costea is professor of Economics of International Trade and Smart Business at ASE Bucharest Romania. Founder of Alternative Sciences Association, visiting researcher at Open University London Carmen Costea's interest is in the field of: commercial economics, underlying the design, control and management of complex social and economic systems, in connection to behavioural changes of customers and companies in order to diminish risks and avoid crises; management of risk and crisis, consumers' behaviour; cultural anthropology; complex education.

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## TERTIARY EDUCATION IN NEED OF A CORPORATE SOCIAL RESPONSIBILITY STRATEGY

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### Abstract

Many companies choose to invest on strategies of CSR as an expression of their Societal Orientation. CSR is the concept whereby businesses integrate social and environmental concerns in their corporate operations and in their interaction with their stakeholders on a voluntary basis. As each profit making company builds a successful brand image in the community, the CSR approach allows it to give back to the community and the environment by taking the responsibility of preserving the rights of all its stakeholders, our environment and our planet. "It has become a band of critics and an image to produce a license to operate for business that has a proper CSR program". (Lodge, Wilson 2006).. CSR efforts can help transform businesses and develop their corporate citizenship, as a tool for development and competitive economic advantage by facilitating and developing these efforts in the world. (Carter. C. 2007)

According to the European Competitiveness Report 2008 of the EC indicates that the stakeholders are the major criteria to ensure good CSR efforts. Ongoing support for the CSR approach from the non market stakeholders, for example, allows better and more effective results. 'Effective CSR requires dialogue and partnership with stakeholders such as trade unions, public authorities, non-governmental organisations and business representative organisations.' (EC website 2009)

The CSR approach is also an opportunity for tertiary education to implement and take responsibility to influence and set an example to their students, employees, community and government bodies.

In this research paper the researchers aimed to identify the market opportunities for the University of Nicosia, in order to enhance its brand image as a Responsible Organization in the Cyprus and the International Market of Private Institutions of Tertiary Education. Various objectives were identified from the research to establish and increase CSR awareness, CSR advantages and efforts and increase brand positioning and image for tertiary education.

The research was divided in three phases and it combined a variety of research methods in order to help the researchers to collect valid and reliable data. The first phase of the research was a survey with a sample of 506 Cypriot Citizens who were

asked to express their expectations in terms of Social Activities from an Institution of Tertiary Education in Cyprus. The respondents were positive for the advantages the CSR efforts could bring to both the community and environment and the majority of them agreed that CSR behaviour and philosophy to care for our plant and community is important and needs the collaboration of the educators to help persuade and influence our world. They have also listed areas/ social problems in which they expect the Institutions of Tertiary Education in Cyprus to become actively involved.

The second phase of the research was a survey among a sample group of 60 persons who interact with the University of Nicosia (students, faculty and staff) who agreed on the need of an Institution of Tertiary Education to adopt a dynamic CSR strategy. Furthermore a 86.7% of responders agreed that a successful CSR strategy will increase awareness and 81.6% also agreed that CSR could increase brand positioning and image for the University of Nicosia.

The third phase of the research used the focus group approach. A focus group was formed with the participation of the Campus director and members of the administration and the student affairs of the University of Nicosia. They all agreed on the need, the Institutions of Tertiary Education to get more involved in environmental and social problems. They also agreed with the participants of the first survey (first phase of the research) that ITEs need to form social partnerships with non-profit organizations which aim to solve specific environmental and social problems in Cyprus. The members of the focus group emphasised the need for the University of Nicosia to increase CSR awareness by taking the responsibility to show the community how important is to recycle and preserve the environment and to save energy by adopting "solar energy" technology. On a social aspect the members of the focus group agreed to undertake "smoke free" campaigns and cooperate with the anti-cancer society and inform students about chest cancer which is the number one reason for mortality among young adults. The intention of the focus group to examine other measures and campaigns related to other social problems, like the problem of drugs in Cyprus was also expressed.

The main conclusions from the research highlight the need for Institutions of Tertiary Education to adopt a comprehensive CSR campaign which will enhance their brand image and reputation, contributing to the minimization of social and environmental problems- a role that is expected from ITE's as the research indicated.

**Keywords:** Corporate Social Responsibility (CSR), Institutions of Tertiary Education (ITEs), brand image and reputation.

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## DYNAMIC CAPABILITIES: TOWARDS A CONSTRUCT LINKING MARKETING CAPABILITIES AND PERFORMANCE

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### Abstract

**Purpose:** This paper investigates the influence of dynamic capabilities, specifically routine creation through embedded learning and knowledge, on marketing capabilities and performance, studying the direct relationship between dynamic and marketing capabilities that underlie an indirect link to performance depending on the effectiveness of the resulting new resource configuration.

**Design/methodology/approach:** We carried out an extensive literature review to build a conceptual model, establishing marketing capabilities evolution through dynamic capabilities and the direct and indirect links to performance, the empirical testing included adapting extant scales, verifying the model with senior executive sample of 198 Portuguese firms.

**Findings:** There are two major findings: First dynamic capabilities have an important role in marketing capabilities evolution and competitive advantage maintenance. As pointed by Haas and Hansen (2005), capabilities can turn into core rigidities, and specifically competitive performance is more dependent on how firms use what they know than on how much they know. Second, the performance influence of dynamic capabilities can be considered in a direct but also in an indirect manner. These finds contributes to empirically test theoretical framework.

**Research limitations/ implications:** Our construct produces interesting findings, but in future research work it could: (1) be empirically tested in two or more distinct environmental conditions; (2) investigate which types of firms are more likely to benefit from those, and; (3) focus on the analysis of marketing capabilities moderating effect on the proposed model.

**Practical implications:** Understanding the influence of dynamic capabilities on firm's ability to evolve and change their basis of competitive advantage is an essential strategic goal, in order to compete on a moderate or extreme changing environment. For managers it is important to recognize the value and influence of organizational

learning and knowledge management routines to understand how firms can change their marketing capabilities in order to improve competitiveness and performance.

**Originality/value:** Teece and colleagues in their seminal article back in 1997 established a new research agenda for dynamic capabilities. Since then research has advanced considerably but major findings are about concepts and the importance of this subject in strategic theory. In this theoretical evolution there are two points of agreement. First the dynamic capabilities approach is not yet a theory (e.g. Barreto, 2010). Second, empirical work is in its infancy, with low level of support (e.g. Newbert, 2007).

In order to overcome this background, the aim of this paper is to contribute to empirical progress, studying the effect of dynamic capabilities on performance through marketing capabilities. We aim to develop a model that establishes the contribution of marketing capabilities evolution for competing in a changing environment, considering the critical effect of knowledge creation and transfer in a non-static marketing configuration. As recognized by Krasnikov and Jayachandran (2008) “research providing empirical generalizations for the relationship of different types of capabilities to performance and an examination of how they vary would benefit managers and academics” (p. 1)

Dynamic capabilities are the basis to change organization resource base, considered by Winter (2003) as higher-level capabilities altering ordinary capabilities or substantive capabilities (according to Zahra et al. 2006). It seems to be accepted that capabilities and dynamic capabilities are related. Zollo and Winter (2002) consider routines to be dedicated to the modification of operating routines, and Danneels (2008) uses the term “second order competences”, because they have the ability to build new competences.

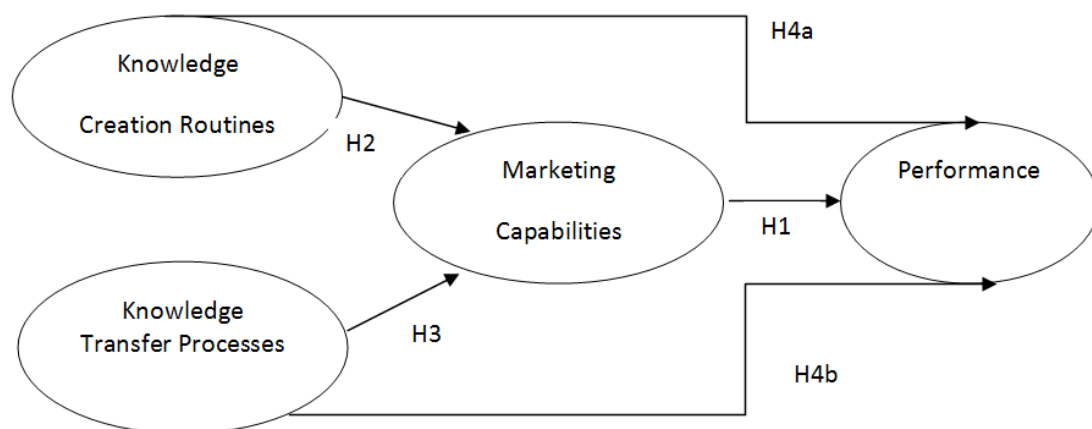


Figure 1. Relationship of dynamic capabilities, marketing capabilities and performance

In this framework, the resulting question is: what organizational “second order” capabilities should we consider as dynamic capabilities? The answer to this question is the core of academic research in this area. Eisenhardt and Martin (2000) enumerated several dynamic capabilities, such as product development routines, strategic decision making, routines for knowledge replication and brokering. Danneels (2008) explains them as a “competence to build competences” (p. 519), exemplifying that an explorative competence allows firms to build new competences and is based on the “accumulation of new resources to form new organizational competences is a form of organizational learning” (p. 520).

Finally this model seeks to bring some light about the direct relationship between dynamic capabilities and firm performance. Performance can be directly affected by dynamic capabilities (e.g., Makadok, 2001; Zollo and Winter, 2002). But can also result from the competitive advantage produced by the new configuration of resources, which is built through dynamic capabilities (Eisenhardt and Martin, 2000; Helfat et al., 2007).

A third perspective, indirect relationship, can also be considered where the quality of substantive capabilities is altered by dynamic capabilities (e.g. Zahra et al. 2006; Zott, 2003). To help our analysis, we have hypnotized the indirect (H2 and H3) and direct (H4a, H4b) relationship.

**Keywords:** Dynamic capabilities, marketing capabilities, performance, knowledge, routines.

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## GLOBALIZATION AS AN OPPORTUNITY: THE CASE OF ALENTEJO (PORTUGAL) WINE PRODUCERS

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### Abstract

**Purpose:** This papers analyses Portuguese region of Alentejo wine producers to explicate the globalization impact on business performance. Global market overture perception has an opportunity or threat is determined and evaluated that threat can be transformed into opportunities.

**Design/methodology/approach:** We carried out an extensive literature review to build a conceptual model, establishing capabilities and resources impact on performance, the empirical hypothesis testing included adapting extant scales, verifying the model with senior executive sample of 65 Portuguese wine producing firms.

**Findings:** Portuguese wine firms were profiled according to their export capacity. Firms with greater export propensity (>30% of e.p.) are anonym societies, their dimension is above average, uses web and fairs as promotion and communication strategy, usually don't invest on direct sales to the public. On internationalization they opt for strategic partnership as significant part of their marginal approach to foreign markets. In fact, these markets (mostly UK and Germany) are considered as an option to sell exceeding stocks. In this income growth opportunity, local distributors are selected as major strategy.

The firms with null export propensity (0% of e.p.) are small and individually owned, are available to sell directly to the public, their brand awareness is low, they are reactive to foreign markets, because they expect subsidies.

**Research limitations/ implications:** Authors seeks to identify determinant factors in order to sustain the fact explanation. In the proposed model, variable rejection isn't considered, specifically by the absence of relation, procedures that can contribute to variable exclusion. The effect of product positioning in the market and is value proposition wasn't considered in this study, but we suspect that some of the conclusions can be affected by this variable. Further research in both areas is recommended.

**Practical implications:** Theoretical findings permits to identify several managerial implications, such as (1) firm competitive factors to compete in international marketing in the wine sector, such as dimension, partnerships, past performance, knowledge, and marketing capabilities and (2) identification of major strategic options about market selection, channel and promotion management.

**Originality/value:** This paper offers a relevant contribution on wine sector because (1) permits to understand the wine firm competitive factors on foreign markets and, in this framework, which actions can be taken to compete on global markets, and (2) permits to understand what changes are necessary to assume an proactive strategy towards globalization.

Our theoretical framework considers several perspectives in order to build the construct and hypothesis, Table 1 and 2 presents a summary of those approaches.

<i>1.- Reasons for internationalization</i>	<i>Constraints</i>	<i>Origins</i>
<i>1.1.-Transation costs approaches Zhang (1993)</i>	<i>Manager's foreign markets expectancy is determined by economic factors; Manager's foreign markets expectancy is determined by financial factors.</i>	<i>Export results of economic and financial motives</i>
<i>1.2.- Contingential approaches Valarie Zeithaml, P.R. Varadarajan &amp; C. Zeithaml (1988) Charles Hofer (1975)</i>	<i>Manager's foreign markets expectancy is determined by internal factors; Manager's foreign markets expectancy is determined by external factors.</i>	<i>Internal pressures: Managers Stocks Financial difficulties External pressures Competitors Distributors pressures</i>
<i>1.3.-Competitive strategy based approaches D.T. Brownlie (2001) Kotler, Fahey &amp; Jatuskripiak, (1985)</i>	<i>Manager's foreign markets expectancy depends on their competitive position</i>	<i>Firms can assume different competitive positions depending their market strengths: Leadership Follower Challenger Specialists</i>

Table 1. Approaches to internationalization reasons

<i>2.-How firms internationalize</i>	<i>Constraints</i>	<i>Challenges</i>
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2.1. <i>Standardization/adaptation approaches</i> Leonidas C. Leronidou, C. Katsikeas & S. Samee (2002) Cavusgil & Zou, (1994); Samiee & Roth, (1993) Cavusgil & Kirpalani (1993), Cavusgil & Zou (1994)	<i>Manager's foreign marketing strategy on standardization degree</i>	<i>Degree of adaptation</i>
2.2.- <i>Relational marketing approaches</i> Bert Rosenbloom, Trina Larsen, Rajiv Mehta (2003) Denise Jarratt & Ramzi Fayed (2001) Styles & Ambler (1994) Kotler (1990)	<i>Manager's foreign markets expectancy depends on weight given to those markets.</i>	<i>Relationship between firms and his environment; Degree of involvement with foreign markets, measured in terms export risk propensity</i>
2.3.- <i>Entry mode approaches (Upsalla School)</i> Johanson, J & Vahne, (1977)	<i>Manager's foreign markets expectancy influence gradual entry strategy</i>	<i>Gradual entrance on foreign markets (Step by step)</i>
2.4.- <i>Entry mode approaches (born global)</i> Jussi Raisanen (2004)	<i>Manager's foreign markets expectancy assumes entry strategy since first steps.</i>	<i>Entry on global markets through a structure initially conceived to be global</i>
2.5.- <i>Export performance approaches</i> Lages, L.F. & Jap, S., (2004)	<i>Manager's foreign markets expectancy depends on past performance</i>	<i>Past performance can affect short term foreign markets decisions</i>

Table 2. Forms of internationalization

**Keywords:** International marketing, step by step, born global, strategy, Alentejo region, Wine producers.

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## **INNOVATIVE LEARNING IN HIGHER EDUCATION THROUGH P2P (HYVINKÄÄ, FINLAND)**

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### **Abstract**

This paper seeks to examine and explore academic literature and empirical implications of a specific Peer to Peer (P2P) degree programme within a new learning by development initiative (LbD) in a university setting.

Laurea University of Applied Sciences Finland introduced LbD in 2006 as a pedagogical framework for learning in all its degree programmes based on authenticity, partnership, experimentation, research orientation and creativity. There are 5 competences within this pedagogical framework to be acquired by the learner. These are described and academically assessed within the paper itself. They are: ethical, global, networking, innovative and reflective, respectively. Within this framework Laurea Hyvinkää campus has developed since 2008 a P2P learning model.

The core objective of the paper is to assess some quantitative empirical findings from this P2P model and through those findings evaluate the reality of the presence of the LbD competences.

4 specific projects involving real businesses within this unique P2P programme are described and assessed within that objective. Together with the evaluation criteria used. An anonymous questionnaire was given to 44 participants within the P2P model. This investigation shows that this particular P2P educational model is a good example of the LbD initiative, and that the LbD's 5 competences are present in reality within it.

The empirical evidence shows that the most present competences within the P2P model are the innovative reflective and network ones, which are strongly incorporated. The global and ethical competences are present in reality to a far lesser extent. This paper demonstrates additionally that this P2P educational model fills the gap between traditional teaching methods and pure research based learning. It highlights the successful reality of collaborative learning and the development of knowledge for those involved in the process (mentors, students and businesses).

## FACTORS AFFECTING THE TRANSFER OF TRAINING

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### **Abstract**

**Purpose:** The purpose of this study was to address two significant deficiencies in the literature on the transfer of training. Kirkpatrick's Four Levels model for training evaluation, and the Phillip's Model for calculating return on training investment, although criticised by business academics, are both widely used by practitioners (Kirkpatrick, 1994, Phillips, 2000). The shift to transfer of learning - systems and climates - promise enhanced tools which are grounded in theory but also have robust utility for the practitioner and thus are suitable for practical application. To date the overwhelming majority of the work on transfer is based in the United States of America and little work has been published in the European region. Furthermore, transfer is usually tested using self-report measures and few studies have been published using substantive outcomes data from training events. Studies on factors affecting learning transfer in European situations, or evaluations of measures of transfer such as return on investment have yet to be developed. This study aimed to examine transfer for the Irish situation. It attempted to identify items that best explain transfer of learning from organisational training programmes. The study also aimed to establish whether Irish contextual factors surrounding training in organisations differed from those identified by research in the United States of America. It also tried to identify which factors best predict transfer of learning as represented by return on investment.

**Design/methodology:** Given that the purpose of the research was to examine factors of transfer in an Irish context, existing scales and measures from the literature were not used, instead the study created an original inventory using approaches established in good practice. This also involved the engagement of an expert group of 28 senior and experienced HRD practitioners in the development of the inventory. The study tested the inventory with a wider group of 314 experienced practitioners and used factor analysis to reduce the overall number of items. The reduced transfer inventory was completed by 256 participants who attended 11 different training interventions. Given that one of the aims of the study was to provide more substantive measures of transfer a surrogate measure of transfer was chosen - the return on investment from each training intervention as dependent variable. Multiple regression analysis was performed on the results to evaluate the explanatory power of the independent variables – the factors affecting transfer of training.

**Findings:** Twenty four items emerged from the multiple regression analysis which accounted for the 75% variation in the return in investment dependent variable. These items show that differences between the geographical regions exist in terms of the factors affecting transfer of learning. Several new items, not identified in the previous literature, emerge as having explanatory power in terms of the dependent variable. There is a further opportunity for further research in US and European situations. Differences found between industrial sectors warrant further investigation.

**Originality/value:** The literature on transfer of learning is dominated by research from the United States of America. There has been a long and sustained tradition of investigation in the US into evaluation and transfer of training dating back to the middle of the last century (Kirkpatrick, 1994, Holton, 1996). To date a significant body of work has not emerged in the European region. This study redresses this imbalance with an initiative in the Irish situation. Furthermore, the standard approaches in the literature to the measurement of transfer include self-report and manager report on the transfer of training. This study advances the field through the use of return on investment as an operational measure of the transfer of learning. This is a significant departure from existing practice.

**Research limitations/implications:** This research is limited to the Irish setting. It is also confined to the study of short term training interventions and has not considered longer term developmental initiatives. The use of return on investment as a surrogate for transfer is a novel and controversial approach. Efforts must persist in exhausting the number of transfer items with explanatory power in Irish settings. A statistically based robust inventory method must be established to measure the transfer system, and develop practical constructs.

**Keywords:** Transfer of training, evaluation of training, training, measurement.

## Biography

Paul Donovan is School Director of Teaching and Learning at the School of Business and Law, NUI, Maynooth. He was previously Registrar and Head of Management Development at Irish Management Institute (IMI) specialising in Management Development. Before joining IMI he worked as a general operations manager with the Bord na Mona, the Irish Peat Development Authority. He was also Training and Development Manager of the Bord na Mona group. Paul has delivered executive development programmes in over 15 countries. He has written several peer reviewed articles, over 10 books in training and general management. He has contributed a column to HRD magazine for over 13 years. His research interest is the transfer of training. Paul holds a doctorate from Leicester University.



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## INITIATING A DISTANCE EDUCATION PROGRAM: ATTITUDES AND DISPOSITIONS OF BUSINESS AND INDUSTRY PROFESSIONALS

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### Abstract

This paper presents an exploratory study that investigated the feasibility of establishing a distance graduate education program in business administration and engineering. Our purpose was to examine business and industry professionals' attitudes and dispositions about online distance learning. Data collected from an online survey revealed that only 40% of the participants had experienced DL, but 70% were interested in attending DL courses. Content analysis indicated that flexibility in time and place, new challenges, independence, and enhancing professionalism in the workplace, were the reasons for future enrolment in a DL course. Lack of communication with the teaching staff, lack of self-discipline, desire to separate learning from work and home, and worrying about not being able to understand the learning materials were the reasons for opposing DL. We found that 'time' (saving time, time to think, managing time, etc.) was a recurrent theme amongst DL proponents, while 'lack of communication' was a major concern among DL opponents. Data indicated no statistically significant differences between gender and age groups. However, we found differences between participants with a post-modern perception of learning and those who believe in traditional teacher-centered education. Learning about business and industry professionals' attitudes and dispositions, preferences, and needs in the early stages of our distance education initiative will assist us in designing and tailoring the appropriate DL system and online courses.

**Purpose:** This paper presents a study that investigated the feasibility of establishing a distance graduate education program in business administration and engineering. Our study is part of a large research project that examines the implementation of distance education and its effects on teaching and learning at the Technion, Israel Institute of Technology. The two main research questions regarding business and industry professionals were:

1. Will they choose to study via distance education? If so, why?
2. What characterizes the ones who elect to enroll in a distance learning course?

The participants were 112 randomly selected business and industry high-tech professionals, from the computer and communication, pharmaceutical, and aerospace industries in Israel. Two thirds of them studied their first degree at the Technion.

**Methodology:** We applied the 'exploratory study' methodology (Kotler, Adam, Brown and Armstrong, 2006), and the 'mixed methods' model (Johnston and Onwuegbuzie, 2004). Research tools included an online survey and semi-structured interviews, which were validated by three experts in distance learning (DL). The survey included open-ended questions related to the participants' demographics (gender, religion, age), their workplace, and dispositions about DL. Participants' responses were content analyzed by the experts for establishing research trustworthiness via investigator triangulation (Denzin, 1978). The survey included 36 items on a 1-to-5 Likert-type scale divided into six categories: Meaningful learning, Techno-pedagogical needs, Social aspects & relation to the university, Course quality & students' support, Self-efficacy & self-assurance, and Work-place aspects. The survey's total internal consistency, Cronbach's Alpha, was 0.93. One Way ANOVA model examined students' differences in their attitudes about DL.

**Findings:** Data collected from the online survey revealed that only 40% of the participants had experienced DL, but 70% were interested in attending DL courses. Content analysis indicated that flexibility in time and place, new challenges, independence, and enhancing professionalism in the workplace, were the reasons for future enrolment in a DL course. Lack of communication with the teaching staff, lack of self-discipline, desire to separate learning from work and home, and worrying about not being able to understand the learning materials were the reasons for opposing DL. We found that 'time' (saving time, time to think, managing time, etc.) was a recurrent theme amongst DL proponents, while 'lack of communication' was a major concern among DL opponents.

No statistically significant differences were found between gender and age groups. A statistically significant difference was found among professionals from different religions in the Social aspects & relation to the university category ( $F_{2,106}=3.64$ ,  $p<0.02$ ). Interestingly, business professionals from the Muslim sector were less concerned about lack of social interactions compared to Jews and Christians ( $3.20\pm0.92$ ,  $2.88\pm0.95$ ,  $2.34\pm0.75$ , respectively). This can be explained by cultural differences between post-modern/constructivist and traditional education. The former encourages debates, discourse, and question posing that involves interactions between teachers and students. Traditional education is based on one-way information flow, from the lecturer to the students, reducing the need for communication in the other direction.

An aspect found to inspire positive attitudes about DL was participants' prior experience in DL. Participants who had prior experience indicated significantly higher

positive attitudes about DL compared to their colleagues ( $F_{1,109}=10.16$ ,  $p<0.05$ ). Another aspect was the participants' academic background, namely business administration or engineering. The engineers expressed overall higher positive attitudes than their business professional counterparts ( $F_{1,109}=4.84$ ,  $p<0.05$ ). These results suggest that industry people with engineering background feel more secure learning via use of technology and better realized the potential contribution of distance education to their professional development.

**Implications and Value:** Higher education institutions have experienced dramatic growth in the use of DL systems, with some institutions offering entire degree programs via online (Lee and Pituch, 2006). However, while universities have invested substantial resources in DL systems, their pedagogical advantages as well as their cost-effectiveness are still to be examined. Learning about business and industry professionals' attitudes and dispositions, preferences, and needs in the early stages of our distance education initiative will assist us in designing and tailoring the appropriate DL system and online courses. Following our findings, distance education courses will accommodate both social and cognitive requirements. Following design-based principles, our DL courses will include online assignments that enhance collaboration, knowledge construction, and higher-order thinking (Barak, 2007; Barak and Dori, 2005; 2009; Dori, 2007; Dori and Belcher, 2005; Levine-Peled, Kali and Dori, 2009).

**Keywords:** Distance education, online learning, synchronic and a-synchronic learning

## Biography

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**Ms. Rania Farraj** is a doctoral student at the Department of Education in Science and Technology, at the Technion. Her doctoral research, supervised by Prof. Y.J. Dori and Dr. M. Barak concerns characteristics and specific problems of distance learning for scientists, engineers, and MBA students.. Ms. Farraj is Research Assistant at TIDES – Technion International Distance Education & Studies, as well as an educator and coordinator of Biology courses in Rame High School in Israel. Ms. Farraj was the pedagogical advisor of a Public Broadcasting System. Her research interests include the use of advanced technologies and computerized molecular modeling.

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## WOMEN'S ENTREPRENEURSHIP: DO INSTITUTIONS MATTER? EVIDENCE FROM MIDDLE EAST AND NORTH AFRICA COUNTRIES

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### **Abstract**

In this study, we examine relations between women entrepreneurship and institutions in the Middle East and North Africa (MENA<sup>57</sup>). Indeed, one of the main issues for MENA governments is the increase of women's labor participation rate. During the last years, MENA region has had improvements to women's education and health. However, women's labor has shown no progress. Female labor participation rate is around 26%, the lowest rate of any other region (World Bank, WDI, 2010). As a consequence, women's human capital is underused. Yet, many studies highlight connections between female labor participation rate and GDP level, in particular for the MENA. Women entrepreneurship could be a way to address several issues: increasing employment and female employment in particular, having a better economic growth and development level. But, in MENA countries, women-owned firms are only 13% of all enterprises on average (World Bank, Enterprise Surveys, 2009). However, in a previous study (Ducellier-Liebeaux, Diana International Conference 2010) we demonstrated that women-owned companies have very interesting features: they are larger, older, they are more export-oriented, they use more new technologies and they employ more skilled women than men-owned firms. As a consequence, it is very important to determine the factors of women entrepreneurship to develop it. Among macroeconomic determinants of women entrepreneurship, quality of institutions seems to be very promising but also not very much studied. What are institutions exactly? D. North (1990) offers the following definition: "Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction". Institutions influence economic environment and, certainly, entrepreneurship. As a consequence, the purpose of this study is to highlight relations between quality of institutions and women entrepreneurship in MENA. We want to ascertain if this relation exists, if institutions have the same importance for men and women entrepreneurs in the MENA. We also want to know if this relation between institutions and MENA women's entrepreneurship exists in other developing countries and in the same proportions. Thanks to this study, we will have a better understanding of women

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57 According to the World Bank, the MENA Region includes: Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates, West Bank and Gaza, Yemen.

entrepreneurship and we will be able to suggest public policies to spread out women-owned companies.

In a first section, a review of literature is presented. We highlight the fact that few researches get onto this issue. We can found a large literature about institutions and economic growth, few about institutions and entrepreneurship, almost none about institutions and women's entrepreneurship.

In the second section, the empirical model is introduced. Data from Laborsta (ILO) and the World Bank's World Governance Indicators (WGI) are used. These data are available for almost all developing countries.

These data are employed to perform series of regressions. In these regressions, the dependent variable is the rate of women entrepreneurship in a country. Several measures as a proxy of women entrepreneurship of this rate (such as the share of women entrepreneurs among active women) are tested. The independent variables represent the quality of institutions. We use 6 independent variables which are the six World Governance Indicators defined by Kaufmann, Kraay and Mastruzzi (2009) in order to measure different aspects of institutions: "Government Effectiveness" and "Regulatory Quality" summarize the ability of the government to formulate and implement sound policies. The respect of citizens and the state for the institutions which govern their interactions is categorized as "Rule of Law" and "Control of Corruption". "Political Stability and Absence of Violence" measure perceptions of likelihood that the government in power will not be destabilized and indicate the continuity of policies. "Voice and Accountability" captures the process by which citizens of a country are able to participate in the selection of their government.

Some control variables such as GDP per capital (PPP) are introduced in addition. Using pooled data, we present the specificities of this kind of regression.

In a third section, the main results are introduced. They indicate that the quality of institutions is a relevant factor to understand the level of MENA women's entrepreneurship.

In a last section, we conclude with limitations of this study, implications for public policy and future directions for research.

**Keywords:** women's entrepreneurship, government institutions, MENA, WGI.



## BANKING EFFICIENCY, CAPITAL AND RISK: AN EMPIRICAL INVESTIGATION

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### Abstract

**Introduction:** After the propagation of banking problems around the world that eventually led to the 2007/08 financial crises, market participants and policy makers seek to identify the determinants of the crises or to look for “early warning indicators” of trouble, so as to prevent its repetition.

Banks play a vital role in the economy; their efficiency and productivity have significant consequences across a wide range of non-financial firms and industries. New regulatory requirements try to capture all risks associated with banking markets, such as credit risk, market risk as well as the risk of default. At same time they try to promote competition in order to make financial institutions more efficient and productive.

The primary objective of regulations is to ensure soundness the banking industry. *‘Most bank failures are directly related to having a large number of problem loans, a low capital position, weak or negative cash flow, and a poor management quality’* (Berger and Humphrey, 1997, p.p.23). Bank studies that have examined these issues find evidence that institutions displayed low efficiency prior to failure, together as a positive relationship between management quality and efficiency.

The literature indicate that failing banks tend to be located far from the best frontier suggesting that they perform at low cost efficiency [Berger and Bumphrey (1992), DeYoung and Whalen (1994)]. Additionally, the level of efficiency was found to be related with that both capital and risk [Hughes and Mester (1998, 2009)]. Studies also indicated that inefficient banks with low capital are likely to take on higher risk to compensate for lost as opposed to efficient one’s that are more flexible in terms of their capital leverage or overall risk profile [Kwan and Eisenbeis (1997), Hughes and Mester (1998, 2009), Fiordelisi et al (2010)]

Following the aforementioned the aim of the current paper is to examine the effect of efficiency on bank risk. Additionally, investigates whether bank capital has an effect on this relationship. To examine this we model the inter-temporal relationships among efficiency, capital and risk.

**Methodology:** In order to examine the inter-temporal relationship between bank capital risk and efficiency we utilized the Granger Causality. Granger causality suggest that a variable X Granger-causes Y if Y can be better predicted using the histories of both X and Y than it can using the history of Y alone.

In order to separate the inter-temporal relationships between bank capital, efficiency and risk we estimate the following equations:

$$Risk_{i,t} = f(Risk_{i,t-n}, x - eff_{i,t-n}, CAP_{i,t-n}, CV_{i,t}) + \varepsilon_{i,t} \quad (1)$$

$$x - eff_{i,t} = f(Risk_{i,t-n}, x - eff_{i,t-n}, CAP_{i,t-n}, CV_{i,t}) + \varepsilon_{i,t} \quad (2)$$

$$CAP_{i,t} = f(Risk_{i,t-n}, x - eff_{i,t-n}, E/TA_{i,t-n}, CV_{i,t}) + \varepsilon_{i,t} \quad (3)$$

where,

$Risk_{i,t}$  = a measure of the risk for bank  $i$  at time  $t$ . Is the ratio of nonperforming loans to total loans ratio

$x - eff_{i,t}$  = a measure of cost efficiency for bank  $i$  at time  $t$ . Is the short term cost efficiency measured as percent of maximum cost efficiency achieved by bank  $i$  on the estimated best-practice cost frontier for the year in question

$CAP_{i,t}$  = a measure of capital for bank  $i$  at time. It is a ratio of total equity capital to gross total assets

$CV_{i,t}$  = a set of control variables

To measure the X-efficiency, the stochastic econometric frontier model will be applied. When the minimum total cost function, which is the cost frontier, is translog, then a bank's observed total cost is the following:

$$\begin{aligned} \ln TC = & \alpha_o + \sum_{i=1}^n \alpha_i \ln w_i + \sum_{k=1}^m \beta_k Y_k + \frac{1}{2} \sum_{i=1}^n \sum_{j=1}^n \gamma_{ij} \ln w_i \ln w_j + \\ & \frac{1}{2} \sum_{k=1}^m \sum_{\zeta=1}^m \delta_{k\zeta} \ln Y_k \ln Y_{\zeta} + \sum_{i=1}^n \sum_{k=1}^m z_{ik} \ln w_i \ln Y_k + u_i + v_i \end{aligned} \quad (4)$$

where:

$w_i, w_j$  = price of input  $i$  and  $j$ ,

$Y_k, Y_{\zeta}$  = outputs  $k$  and  $\zeta$ ,

$TC$  = total cost,

$v_i$  = random error, where  $v_i \sim N(0, \sigma_v^2)$ ,

$u_i$  = inefficiencies, where  $u_i \sim |N(0, \sigma_u^2)|$ , and

$\alpha, \beta_k, \gamma_{ij}, \delta_{k\zeta}, z_{ik}$  = are independent parameters.

$\varepsilon_i$  = is the error term

**Findings:** The research paper aims to identify if there exists a relationship between cost efficiency risk and capital in the Cyprus banking sector

**Research limitations/implications:** The study's implications are significant for both academia and practice. In regards to the academia this paper addresses the issue of efficiency performance and financial distress of banking institution. The bulk of literature concentrated on the relationship between risk and bank failure. Additionally, findings can provide policy makers with new areas of importance in terms of stability of financial institutions

**Practical implications:** The question whether banks are efficient is of interest to managers and shareholders, as well as to customers and regulators. If these institutions become more efficient, then profitability will improve, greater amounts of intermediated funds will be available and better prices and service quality for consumers will be obtained. Thus, banks become more viable, therefore, the possibility of failure or being subject to take-over, decreases substantially. On the other hand, inefficient banks face the risk of default and that in turn generate the possibility of a bank run.

**Originality/value:** In the author's best knowledge, there is no published research in the literature that address the specific subject matter in the Cyprus Banking market.

**Keywords:** Banking, Efficiency, Risk, Capital

## E-QUALITY OF AIRLINE COMPANIES' WEBSITES AND EMOTIONAL BRAND EFFECTS

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### **Abstract**

Consumers depend on brands more in the online environment than offline, due to the anonymity of the Internet. Companies with well-known brands benefit from the halo effect when they try to establish themselves in the online environment since consumers are more receptive to online offers of familiar brands that they trust than to offers of unknown brands. The literature shows us the importance of emotional value, and its influence exercised on a brand as the detonator of satisfaction, trust and loyalty behaviours towards it (Moliner et al, 2007; Sánchez et al, 2007). In the civil aviation sector, the airline companies have used their brands to create their websites and thus attract passengers to make their purchases through their websites. In this context, the aim of the study has been to analyse the quality of airline companies' websites and their possible relationship with the consumer's feeling of affect towards a brand. For this purpose we carried out an empirical study consisting of a total of 1710 personal interviews with users of the airline companies Iberia, British Airways, and easyJet who buy their tickets through the airline companies' own websites. In the analysis of the data, first a study of the dimensionality, reliability and validity of the equality and emotional value scales was carried out by means of a Confirmatory Factor Analysis using the Structural Equations Models Technique. Next a descriptive analysis was carried out applying the ANOVA technique, allowing identification of any significant differences between the means of several independent samples. The results reveal that significant differences do exist in the items forming the e-quality scale among users of the three airline companies, and these differences arise from relationships closely linked to the feeling aroused by the brand in each of the three samples.

## **SOCIAL MEDIA IMPACT ON LEISURE TRAVEL: THE CASE OF THE RUSSIAN MARKET AND THE CHALLENGES FOR THE CYPRUS TOURISM INDUSTRY**

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### **Abstract**

**Purpose:** Web 2.0 “empowered” consumers by enabling them generate their own content through a range of devices and platforms that are easy to use even by non-specialists (Gretzel et al, 2006; Buhalis et al, 2005). Today, social media applications enjoy phenomenal success: Indicatively, Facebook, a social networking website, claimed that its active users reached 300 million, and at the same time it is estimated that there are over 200 million blogs worldwide (Qualman, 2009). Social media, defined by Richter & Koch (2007) as “online applications, platforms and media which aim to facilitate interaction, collaboration and the sharing of content”, seem to change significantly the way individuals plan and consume travel: 82% of US online consumers have checked online reviews, blogs and other online feedback for their travel related purchasing decisions (eMarketer, 2008). TripAdvisor (2009), a hotel review website, claims that it hosts over 30 million user-generated reviews and opinions, used by more than 25 million website visitors per month. It is evident that a significant number of travellers are now able to use the web, not only as recipients of information, but also as information and content creators for use by others. Social media are becoming increasingly important in tourism, since: (a) Potential tourists rely on others’ experiences for their decision making due to the experiential nature of tourism products (Litvin et al 2008; Yoo et al, 2007), thus decreasing uncertainty and increasing the exchange utility; (b) Social media enable storytelling, a usual post-travel engagement in our travel culture, on a ‘24/7’ basis, not only to a larger audience, but also provide a sense of belonging into virtual travel communities (Gretzel et al, 2006). In some instances, the content of on-line communities is perceived as similar to recommendations provided by friends, family members or even “like-minded souls” (Bray et al 2006; Fernback & Thompson, 1995; Wang et al., 2002), thus becoming vital information source to potential tourists (Chung & Buhalis, 2008). It is apparent that

social media introduced a new, complex and uncontrollable, element in consumer behaviour presenting a new challenge to both academia and marketers. A challenge magnified by the fact that the presence of social media seems that caused an increasing mistrust for the traditional marketing tactics, as well as a diminishing effect of traditional mass media. The purpose of this paper is to investigate the role and impact of social media on how Russian holidaymakers plan and consume holidays, and at the same time explore if and how social media are employed, as marketing and communication tools, by the Cyprus tourism industry.

**Design / Methodology / Approach:** The study employs a two stage research design: The first stage (quantitative) consists of a questionnaire survey administered to MASMI's online Russian panel, consisting of approximately 400,000 members, yielding an average response rate of 15% - 20%. The second stage (qualitative) employs a number of in-depth semi-structured interviews with key stakeholders of the Cyprus tourism industry.

**Anticipated Findings:** The quantitative stage of the study attempts to uncover Russians' holidaymakers (a) exposure to social media before, during and after their trip; (b) level of influence that social media have on their holiday plans; and (c) level of trust / credibility towards social media, in relation to traditional sources of holiday related information. The qualitative stage of the study explores how key stakeholders from various sectors of the Cyprus tourism industry, (i.e. state & regional tourism marketing organizations, hospitality, travel trade etc) perceive the importance of social media as marketing tools, and the underlying reasons that contribute to either non acceptance, or acceptance and use, of social media as part of their organization's communication tools.

**Originality / Value:** The originality of this study is on the fact that it attempts to uncover the impact of a whole range of social media on various stages of the holiday travel planning behaviour, but also on the during and post trip stages. Moreover, it addresses the issue of how the tourism industry of a specific country responds to the new reality imposed by social media impact on holiday related consumer behaviour.

**Practical implications:** Research findings provide to tourism marketers and tourism stakeholders an understanding of social media influence and impact on the various stages of holidaymakers' travel planning behaviour. Therefore, the findings enable them to fine-tune their organization's marketing strategies and tactics, thus increasing effectiveness and efficiency of marketing campaigns. The specific context of the study, given that Russia is Cyprus' (a) second most important incoming holiday market, and (b) most promising market in terms of per capita tourism receipts, adds significantly to the practical implications of the study to the local tourism industry.

**Keywords:** Social media; consumer behaviour; travel; tourism; Cyprus; Russia

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## COMMUNICATING SUSTAINABILITY IN THE GERMAN ORGANIC FOOD RETAILING SECTOR

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### Abstract

**Purpose:** This study will look at the German Organic Food Retail sector and its importance for sustainable development. In the Sustainable development dialogue it has been said that the current lifestyle predominant in western industrialized countries is in need of change. This study will show that perfect sustainable consumption does not exist and therefore, it is lifestyles that need to be examined. Of the plethora of different lifestyles being led around the world, it can be said that the main barriers to sustainable consumption are motivation, and feasibility. The greatest challenge of all however is giving orientation to the consumers. In order to address this challenge, the complexities of sustainability need to be communicated.

**Design/methodology/approach:** This is a study of the German market leader in organic food retailing. It looks at who the customers are, what information they are lacking, and how to best provide credible information regarding sustainability to them. It looks at how the vision can be turned into figures and manageable plans of action, and at the potential of improved communication of sustainability to promote sustainable consumption and lifestyles.

**Findings:** Consumers need easy access to Information about sustainability in order to become well oriented and informed consumers. Corporations can help to create and spread awareness of sustainability by communicating relevant information and making company sustainability goals and practices transparent to the public.

**Originality/Value:** Companies attitudes towards sustainability play a fundamental role in the future success of sustainable development. Companies not only have influence through their investments, products, and related decisions, but also through research and education which has a direct effect on the use of natural resources and the resulting ecological effects.

**Keywords:** Sustainable Development, Sustainability Communication, Organic Food Retailing, Sustainable Consumption



## Biography

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## SYSTEMATIC LITERATURE REVIEW OF RESEARCH ON FAMILY OWNED BUSINESS SUCCESSION

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### Abstract

**Purpose:** Over the past thirty years, an abundant literature was recorded on the topic of executive succession in family firms. In an attempt to develop an interactive theoretical framework for effective family owned business succession, a secondary research through systematic literature review serves as a starting point. It therefore provides insight on key factors of effective succession and reveals gaps to fill via a primary research in the case of the Cyprus family wineries. The aim of this secondary research is to develop an interactive theoretical framework for effective family owned business succession in the Cyprus wine sector. Systematic literature review is the backbone of the framework's variables. A certain number of the discovered variables will be hypothesized and tested in the arena of the Cyprus family wineries, adjusted accordingly to produce new concepts in a way to contribute to theory and practice at a doctoral level.

**Design/methodology/approach:** The search strategy was encompassed three stages: (1) an exploratory scoping stage was used specific searched terms with the aim to identify the main body of existing knowledge on the topic area, (2) an abstracting and title reading process was aimed to narrow the broad spectrum of the literature to a manageable number of eligible studies. Moreover, through inclusion/exclusion criteria was attempted to assure credibility and reliability of selected studies, and (3) as a result, a final number of selected publications were full text interpreted to develop the conceptual framework for the empirical assessment in the case of the Cyprus family wineries.

**Findings:** From this literature review, it was enabled to identify key factors that can potentially, positively or negatively, influence succession process in family firms. Some of these factors are core to succession as a sociopolitical process, in which the power and influence determine success or failure (Pfeffer, 1981 and Zald, 1965, as cited in Boeker and Goodstein, 1993:184). Other factors might have a higher degree of peripheral influence either in the industry-business [capitalistic] context, or in the [socialistic] family context (Le Breton-Miller, Miller and Steier, 2004). These, relevant to succession process and context factors, can act individualistically; however, they might interact synergistically determining again the succession outcome (Boeker and Goodstein, 1993; Le Breton-Miller, Miller and Steier, 2004).

**Research limitations:** This review did not show much on how and why these discovered factors contribute to succession success, for example, in the reality of a specific form of family businesses; the family owned wineries. Moreover, no systematic review has been conducted to tackle the complexities, the enablers and barriers of succession in the Cyprus family business arena. Consequently, it was revealed from this review that a clear research focus should be given on the family socialistic involvement or influence in the succession process and on the reciprocal effects of successor type on ownership patterns and board structure.

**Originality/value:** Among the benefits of this review it was revealed that no research based literature was found for succession issues in the family wineries. Moreover, systematic review of research studies was given special attention into the process and context of executive succession in family firms. Therefore, from a positivist's perspective, the review of existing body of literature was used as basis of developing the preliminary theoretical framework for empirical assessment in the arena of the Cyprus family wineries.

**Keywords:** executive succession; family owned business; systematic literature review; theoretical framework; Cyprus family wineries

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## EFFECTS OF STRESS AND HEMISPHERIC PREFERENCE ON JOB DECISION MAKING: TESTING A NEW HYPOTHESIS

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### Abstract

**Background:** There is an accumulating scientific literature on research concerning the concepts, elements, consequences and management of job stress. Stressful demands undergo cognitive appraisal, which then require certain coping strategies that either alter the stressor or make a person adapt to it, resulting in various outcomes (burnout or well being, etc). However, internal resources (e.g., personality) and external resources (e.g., social support) also influence these elements and the outcomes of stress. A major role of managers is decision making (DM), and research has shown that stress influences DM in a complicated manner. Studies found that stress makes people focus more on global issues rather than on details, and leads to “premature closure” (narrowing one’s focus on a few solutions, while disregarding others). However, it is possible that the effects of stress on DM depend on certain personality or other individual difference variables. This lecture will present the combined effects of stress and hemispheric preference (HP) on job DM. During stress, people may shift from a left hemisphere (LH) focus to a more right hemisphere (RH) focus. People naturally differ in their reliance on their hemispheres, with some being more LH oriented while others being more RH oriented. The LH may mediate mainly analytic, detailed and serial thought processes, while the RH may mainly mediate more intuitive, global and parallel thought processes. These could have important implications for DM, particularly during stress. We thus hypothesized that stress and HP interact in relation to DM, and this was tested in a few studies.

**Methods & Results:** Results of 4 studies are reported here. In studies 1 and 2, we administered to business students hypothetical job scenarios, which demanded various solutions. In Study 1, low and high stress was embedded in the scenarios (by time and work pressure), and in Study 2, stress was externally manipulated (by an unsolvable word search task). In both studies, we used a valid hemispheric preference (HP) test, and students needed to rate their level of analytic DM in each scenario. Indeed, we found evidence for a Stress x HP interaction in relation to analytic DM. In Study 1, only LH students evidenced a reduction in analytic DM due to stress, while RH students did

not. In Study 2, only after the stress, but not before it, did LH students use lower levels of analytic DM than RH students. In Study 3, we administered to actual managers from 3 countries (Israel, France and Italy) questionnaires assessing perceived stress, HP and DM. Controlling for nationality and sex, we found a Stress x HP interaction in relation to DM thoroughness: Only in RH managers, was stress significantly inversely related to DM thoroughness, but not among LH managers. Finally, in Study 4, we tested the effects of stress and HP on forecasting economic growth in business students. In figures that depicted a global increase with a local drop in sales, LH and RH students did not differ in forecasting growth prior to stress. However, after stress, RH students expected more economic growth than LH students.

**Conclusions:** These studies inform us that the effects of stress on various indices of DM may depend on one's HP. In some contexts, LH participants "pay the price" and make less analytic DM due to stress, while in other instances, RH participants experience greater effects of stress on their DM. Whether reduced analytic DM during stress is necessarily inadequate, and the contexts in which LH and RH participants differ in their DM due to stress will both be discussed.

## EXAMINING THE RELATIONSHIP OF BOARD ATTRIBUTES WITH ORGANISATIONAL DEMOGRAPHY: EVIDENCE FROM GREEK LISTED COMPANIES OPERATING IN THE SERVICE SECTOR

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### Abstract

**Purpose of the study:** Due to the crash of tech stocks in the late 1990s, the proliferation of corporate scandals (such as Enron's and WorldCom in US, Siemens's in Germany, Parmalat in Italy, Satyam's in India) and the recent global financial crisis, corporate governance has attracted the attention of academics and business practitioners (Lazarri et al., 2001; The McKinsey Quarterly, 2007). Over the last twenty years a range of CG guidelines has been developed, aiming to protect investors' properties and wealth and reduce the risk of collapse. Although a plethora of studies have already assessed the association between board attributes, board performance and organizational performance (Payne et al., 2009; Nicholson and Kiel; 2007), a limited amount of studies have focused on the association between board attributes (Ruigrok et al., 2007) and organizational demographics. The present study attempts to contribute to this area of interest by collecting data from 135 service companies listed in the Athens Stock Exchange (ATHEX) for the year 2007.

### Literature Review

#### Board Characteristics:

**Board Size:** Larger organisations have more complex structures and managerial processes (Godfrey, Merrill and Hansen, 2009); thus we theorise that there is a necessity for a bigger board size that allows monitoring and servicing the organisation more efficiently.

**External Independent Directors:** Agency theorists believe that the presence of external directors can minimise agency cost. A remarkable number of studies argue that the presence of non-executives protect shareholders' interests (Hillman and Dalziel, 2003; Pearce and Zhara, 1992). Larger organisations involve greater number of stakeholders than smaller ones (Rindova, Pollock, and Hayward 2006). This may result to the need of more external directors, so as to protect the interests of those stakeholders.

**Organizational Demographics:**

**Organizational Size:** Agency theorists argue that larger firms require a greater number of directors to monitor the management of the organization (Kiel and Nicholson, 2005; Hillman and Dalziel, 2003). Similarly, "Resource dependency" theory suggests that large organizations need more directors to attract valuable and diverse resources (Allen, 1974; Dooley, 1969). Large organisations involve greater number of stakeholders than smaller ones (Rindova, Pollock, and Hayward 2006). This may result to the need of more external directors that will protect the interests of those stakeholders.

**Organizational Age:** Institutional theory of action implies that as an organisation ages, reliance on rules increases (Zhou, 1993). The reason of this phenomenon is the increased pressures for "internal consistency" and managerial stability (Aldrich, 1972). Therefore, we may assume that boards in older organisations employ greater proportion of external and independent directors that will be responsible for the consistent internal function and protection of shareholders' interests.

**Methodology:** The current study consists of all Greek companies listed in the Athens Stock Exchange (ATHEX) on 31st December 2007 and operating in the Service sector. Secondary data of 135 companies were collected from December 2007 to January 2008, while the main sources of data collection were the ATHEX website ([www.athex.gr](http://www.athex.gr)) and the companies' Annual Reports. One Way ANOVA was used to examine any significant differences in the means of the four dependent variables (board size, number of internal/external directors, independent members), based on the groups formed for each independent variable (Organisational Age, Organisational Size and Years listed in the ATHEX) that were grouped as explained in the relevant variables in the methodology.

**Findings:** Analysis of Variance technique shows that larger organizations tend to have bigger boards and greater proportions of internal and external independent directors. This may be explained by the fact that large organizations require large number of directors.

Furthermore, older organizations have larger boards, more internal directors but not significant difference in the mean of independent members among the groups. The years that a company is listed in the ATHEX do not show to relate with any of the board characteristics.

**Originality:** This paper extends our understanding regarding corporate governance practices in Greece and focuses on the association between board attributes and organizational demographics in the Service Sector.

## References

References can be provided upon request.



## STAKEHOLDERS AND ENVIRONMENTAL MANAGEMENT SYSTEMS: SYNERGY EFFECTS ON ENVIRONMENTAL IMBALANCE

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### **Abstract**

The objective of this work is to contribute to explaining the environmental proactivity of organizations analyzing the effects, individual and combined, of the pressure exerted by stakeholders and the implementation of an Environmental Management System (EMS). In particular, it is argued that, although both variables contribute separately so that the organization will undertake environmental actions, the presence of EMS intensifies the effect of the pressure of the stakeholders. The work contributes, on the one hand, to the debate on the utility of EMS, establishing not only its direct but also its indirect benefit. On the other hand, it contributes, following other works (Sharma and Henriques, 2005; Kassinis and Vafeas, 2006; Delmas and Toffel, 2008), to determining new elements that have a role in the relation between the organization and its stakeholders in environmental matters.

This work also presents some advances in methodology that could increase the validity of the results. The empirical approach toward environmental proactivity is not based on determining the degree of implementation of a series of practices, but on the concept of environmental imbalance. This disequilibrium measures the limitations of an organization in handling its environmental problems. The idea behind this concept is that the environmental behavior of an organization is a relative attribute that must be evaluated in connection with the pollution potential of that organization. What could be sufficient for one firm could be intolerable for others.

We tested this theory using the information of 3748 industrial plants in seven countries gathered by OECD, which offers empirical evidence that confirms these proposals. The paper, therefore, contributes as much to the debate on the effectiveness of the systems of environmental management as to explaining the complex interactions between an organization and its stakeholders.

In this investigation we have found evidence concerning how pressures exerted by stakeholders, along with the implantation of an EMS, constitute factors that allow one to predict a more proactive environmental behavior. However, it is the combination of both circumstances that is most effective. This shows, first, that EMS constitutes a useful tool for companies for satisfying the environmental demands of their stakeholders. And second, and in agreement with the arguments of Dutton and

Duncan (1987), it suggests that the environmental transformation in an organization not only depends on a perception of urgency motivated by the pressure of the stakeholders, but also on a perception of feasibility derived from the existence of an EMS.

**Keywords:** Environmental management system, stakeholders, environmental proactivity.

	Mean (S.D.)	1	2	3	4	5	6	7
1. Pollution potential	4,86 (3,52)							
2. Facility size	3,28 (8,62)	,177**						
3. Environment manager	0,69 (0,46)	,285**	,150**					
4. Geographical scope	2,79 (1,05)	,066**	,121**	-,198**				
5. Economic performance	3,45 (,99)	,008	,071**	,126**	,123**			
6. Stakeholder preasure	9,17 (5,30)	,351**	,186**	,351**	,173**	,166**		
7. EMS	0,39 (0,49)	,246**	,168**	,412**	,091**	,042**	,248**	
8. Environmental imbalance	1,14 (1,70)	,432**	-,053**	-,055**	-,043**	-,082**	-,026+	-126**

Pearson Tests; \*\*  $p < 0,01$ ; +  $p < 0,10$

Table 1: correlation matrix

## Biography

Dr. J. González-Benito is Associate Professor in Management at the University of Salamanca (Spain), which he joined after taking a MPhil in Management Studies at the University of Cambridge (UK) (1997); a MSc in Operations Management from UMIST (UK) (1998) and a Ph.D. in Management at the University of Salamanca (Spain) (1999). He has published in journals such as Journal of Operations Management, Journal of International Business Studies, Industrial Marketing Management, British Journal of Management, Omega, International Journal of Production Economics, International Journal of Operations and Production Management, International Journal of Production Research and International Journal of Market Research.

D. G. Lannelongue is the director of the Colegio Internacional de Salamanca and part-time lecturer at the University of Salamanca. In 2007 he successfully completed a full-time MSc in Management Research at the University of Salamanca. His master's project was "Respuestas a los problemas medioambientales en el ámbito de la empresa. Una revisión del estado del arte". He is particularly interested in green management and strategy.

Dra. D. Queiruga ended her studies of Business Administration and Management in the University of Salamanca in 2002. After this, she wrote her PhD in the department of Production and Logistics at the Technical University of Braunschweig (Germany). In her PhD, Dolores developed an optimization for the Spanish Waste Management System. During this time she published some scientific papers and participated in some research projects. When finalizing her doctorate, she obtained an assistant professor contract in the University of Salamanca.

## GENDER DIFFERENCES IN CONGRUENCE BETWEEN PERSONAL AND ORGANIZATIONAL VALUES

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### **Abstract**

Values function as a predisposition for relatively permanent behaviour. People who share similar values will most likely exhibit similar behaviour in given context and situations. Shared values constitute the spirit and the culture of the firm. Recent studies propose that the actual model of “how things are done” i.e. organisational culture) is dominated by masculine related values rather feminine values.

The objective of the paper is to find out whether there are differences in value congruence between employees’ personal values and organizational values across genders in Spain. In order to achieve this objective, we first analysed the representative data on values of the European Social Survey (ESS) from its Round 4 (2008) in the Spanish sample (N1=2576: 1350 females with mean age 47 years, SD=19; and 1222 males, with mean age 46 years, SD=19) (Study 1). The importance of individual values is measured on the short, 21-item Schwartz’ Values Scale (SVS-21), where the respondents are given a list of verbal portraits of 21 different people, gender matched with the respondent, corresponding to a specific value and asked to evaluate the extent of their similarity to this person.

Next, we collected new data from a sample of 50 respondents, 30 women (mean age 42 years, SD=12) and 20 men (mean age 39, SD=13), from a Vall d’Hebron University Hospital in the Catalunya region of Spain (Study 2). The respondents were asked to estimate the importance of 15 values belonging to a triaxial value model proposed by Dolan and his colleagues (Dolan et al., 2004; Dolan & Garcia, 2002; Dolan et al., 2006; Knoppen et al., 2006), separately in their personal life and for their organization. We use the differences between the perception of organizational values and the estimations of importance of personal values as a proxy for the opposite of value congruence.

Study 1 has shown that most values referred to in literature as “masculine”, such as money, achievement, being admired etc, have a higher importance for men, and values considered as feminine such as care for others and environment, safety, security etc. are more important for women. In addition, many of those feminine values don’t have equal variance among men and women. This proves the validity of our first hypothesis

about the existence of the difference of value priorities across genders in Spanish cultural context.

According to the literature men are more likely to share their personal values with those of the organisation in which they take part, the second hypothesis claimed expected higher value congruence among men than among women. However, Study 2 did not show significant differences in value congruence between these two groups, congruence with regard to two values – achievement and passion being only marginally different (with significance of 0.18 and 0.13, which may be considered as acceptable in such small samples). We discuss these results from the perspective of the potential impact of national and organizational cultures in Spain and present the suggestions for further research.

**Keywords:** values, value congruence, gender differences

## THE STUDY OF FACTORS AND THEIR RELATIONSHIPS IN PREDICTING BRAND-BUILDING BEHAVIOURS: A CASE OF INDONESIAN FMCG COMPANY

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### Abstract

This study primarily aims to explore the factors that contribute to predicting brand-building behaviours. Based on previous research conducted by Morhart et al. (2009) and Henkel et al. (2007), this study also investigates the relationships between brand-building behaviours and their antecedent factors. Latter factor refer to organizational identification, value congruence, and marketing control and are researched in a more detailed and company-wide manner. 'Brand-building behaviours' itself can be defined as employees' contributions (both on and off the job) to an organization's customer-oriented branding efforts (Morhart et al. 2009). On the other hand, 'organizational identification' is the degree of salience with which an individual defines himself by his membership of an organization in given circumstances (He and Balmer, 2007) and 'value congruence' is the degree of value similarity between employees' values and those of their organization (Amos and Weathington, 2008). From an organizational perspective, organizations are well advised to promote these brand-building behaviours in order to achieve more internal and external value identification. 'Marketing control', finally, refers to management's attempts to influence the behaviours and activities of marketing personnel in order to achieve desired outcomes (Jaworski, 1988 and Jaworski et al., 1993 in Henkel et al., 2007).

Applying the triangulation method which exploits both, exploratory and explanatory research design, this study will provide a multidisciplinary approach in analyzing those factors and recommending suggestions on how to strengthen the occurrence of brand-building behaviours. The theoretical discussion is done against the background of the case of an Indonesian FMCG company that recently has implemented their strategic initiatives to promote employees' brand-building behaviours. Regarding the qualitative stage of the research, research techniques will comprise semi-structured and telephone interviews which will be conducted with 6 strategic decision makers in the company. The interviews will be analysed via content analysis. The successive quantitative stage of the research will use highly structured questionnaires distributed based on stratified random sampling to 100 employees in various divisions. The questionnaires are analysed with SPSS providing for cross-tabulation, factor analysis and multiple regression analysis. Besides using previously validated instruments, this

study also strives to ensure its reliability and validity through expert reviews, pilot studies, and using larger number of observations, standardized instructions, common respondents' language (Indonesian), and consistent scoring procedures (Salkind, 2006).

**Keywords:** Brand-building Behaviour, Behavioural Branding, Organizational Identification, Value Congruence, and Marketing Control.

## THE INFLUENCE OF THE ORGANIZATIONAL CULTURE AND NATIONAL CULTURE FACTORS ON THE PERFORMANCE OF MERGERS AND ACQUISITIONS: KEY LESSONS LEARNT FROM CYPRUS

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### **Abstract**

**Purpose:** There is vast literature on the importance that should be placed on the human factor when embarking on Mergers and Acquisitions (M & As) as this is considered to influence the performance of the new organisation formed. In this paper the most important lessons learnt by three stakeholder groups in relation to the organisational culture (OC) and the national culture (NC) factors will be compared and analysed. More specifically, this paper identifies the key lessons learnt in managing M & As, comparing the perceptions of experienced external consultants, senior executives and employees.

The aim of the study was to shed more light on the problem of communication between involved stakeholders. The researcher has focused on the comparison between different stakeholders' viewpoints because these "differences" have been noted in prior studies as an important factor that needs to be examined in more detail and that can perhaps explain the great number of failed cases worldwide.

**Design/methodology:** In relation to the research methods employed, the study adopts a multi-method personal interview and self-administered questionnaire approach to identify the major management lessons related to OC and NC factors and their effect on M & As. The qualitative study first analysed the answers given by the first two groups (senior executives and consultants) whereas the quantitative study analysed the third group's answers (employees). Broadly the response categories were grouped into three distinct stages of M & As: a) the management issues during the pre-merger (negotiation) stage, b) management practices at the integration stage and c) management practices during the post-merger stage.

**Originality/value:** The innovative nature of this study stems from the fact that no similar study has ever been conducted in Cyprus before, as the phenomenon of M & As is relatively new. This was also something noted by the interview participants, expressing their enthusiasm on the subject matter. In a more generalisable level, the aim is to identify the major management lessons that are developed from this study in relation to the importance of the OC and NC factors. Also we are interested to observe whether consultants think that the human factor is important and whether employees experience the M & A process in a complete different way than their senior executives.



How do these viewpoints differ in terms of the OC and NC importance in M & A activity?

**Research questions:** This paper reveals the lessons learned regarding three different stages of the M & A process and provides a set of propositions for future research. The basic research question to be explored in this paper is the nature of these lessons in the management of M & As in relation to the OC and NC factors.

**Social implications/main findings:** This paper contributes to the M & A literature by developing an integrative framework of the comparative viewpoints of stakeholders involved in deals and the lessons learned through their experience. The most interesting research finding from the study is that the NC factor is considered less influential on the M & A performance than the OC factor. This can be explained by the fact that cross-border deals are now a usual phenomenon and thus challenges often met in these cases are not well-known and can be dealt with efficiently. Also the NC factor is not considered as important as the senior management team will first look at the strategic fit with the other company and then they will decide if they will move on with this discussion. The fact that cross-border deals can still be a success was also supported by the majority of employees that participated in the study through the self-administered questionnaire.

On the other hand, the OC factor is still considered as No. 1 reason that can explain the failed cases of M & As. This factor has been mentioned in the M & A literature for the past 20 years and is still considered very important, even today. A related lesson cited frequently by the respondents was that if the two cultures are perceived to be totally different from the negotiation stage then it is best not to go ahead with the acquisition. Thus the correct evaluation and the control of the OC factor needs to be emphasised more by both practitioners and academics alike.

Another important conclusion from this study is that different groups of people and stakeholders involved in M & As can have very different viewpoints and this in turn can negatively affect the results. Thus good communication, dialogue, mutual respect and understanding are vital for a deal to succeed.

**Research limitations:** Learning to manage M & As occurs across the areas of negotiation, integration and post-integration. Many of the categories developed based on the responses obtained by the study participants are inter-related and they also mutually reinforce each other. Thus it is extremely difficult to identify whether learning as such influences directly the results of the M & A. The examination of the relationship between learning to manage M & As and performance outcomes is a challenge for future research.

**Keywords:** Mergers and Acquisitions, organisational culture, national culture, management lessons, M & A performance, M & As in Cyprus.

## **Biography**

Vassilia completed her BSc in Accounting & Finance at the London School of Economics (LSE) in the UK with a First Class. Following the completion of her undergraduate studies, she continued her postgraduate studies (MPhil) in Management Studies at Cambridge University. She is currently a PhD student at the Management School of Sheffield University. For her PhD studies she has obtained funding from the Research Promotion Foundation.

Vassilia Hadjichristodoulou is an expert consultant in European and nationally funded programmes. She is the founder and General Manager of GrantXpert Consulting Ltd, a consulting firm specialising in EU and national funded programmes. Between 2005 and 2009 she worked at the European University Cyprus as Head of the European Funding Programmes Unit. She has extensive experience in offering consulting advice to higher education institutions, research organisations as well as private and public companies in obtaining funding from EU-funded and national programmes. Celia has helped the European University Cyprus (EUC) raise and manage over 4 mln EUR million in grants since 2005. During this period, she has presented a number of workshops on the topic “Obtaining funding from EU and national programmes” to the EUC faculty members, private IT companies, commercial and cooperative banks, small-to-medium enterprises, public authorities and non-profit organisations. In addition, Celia has been involved as project coordinator, financial manager and researcher in more than 30 European and nationally-funded projects in the past 3 years.

## CHANGING TALENT MANAGEMENT PRACTICES AND GLOBAL TALENT MANAGEMENT: A LITERATURE REVIEW AND RESEARCH AGENDA FOR THE MEDITERRANEAN REGION

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### Abstract

Changes in how people are managed, from HRM to Talent management, have become key for many companies, including companies in the Mediterranean region. In recent years, talent management (TM) has become a common phrase, but it did not appear on the HR scene until the late 1990s, when McKinsey & Company first coined the term in their report, later book, the 'The War for Talent', which exposed this issue as a strategic business challenge and a critical driver of corporate performance (Michaels et al 2001). Since then, the proposition that the success of organizations is at least partly dependent upon a group of 'super performers' has proved increasingly influential, especially with top managers. Narratives around TM now often refer to 'fulfilling human potential' and 'transforming organizations' as well as 'fighting a war for talent' (Iles 2007,8; Iles et al 2010; Chuai et al 2008)

Technological change, changing business models, the 'knowledge economy' and the globalization of markets have increased the demand for highly skilled people. Meanwhile, workforce ageing and an inadequate supply of young talent have created a supply gap in many labour markets. The creation, development and retention of a 'talented' workforce, which is more mobile and informed than ever before, has increasingly come to be the focus of HRM strategies and attention.

Due to demographic shifts, organizations across the globe have faced major and potentially long-term struggles to fill job vacancies with appropriately skilled employees. Associated with these demographic shifts, the nature of the psychological contract has changed. Talent shortages have meant that the labour market has swung back towards the job-hunter's advantage (though it may swing back again in any recession). There is a war for talent and an increasing competition from enterprises for high-skilled individuals. It is not enough just to attract individuals in talent management in the short-term, but also in the long-term. Moreover, it is said that 'preparation of individuals for senior management and associated leadership roles is the main focus of development activities in talent management.' (Turner et al, 2007)

There have been a number of attempts to capture and/or define the terms 'talent' and 'talent management'. CIPD (2007) claims that TM requires HR professionals and their

clients to understand how they define talent, who they regard as “the talented”, and what their typical background might be. Many organizations prefer to formulate their own meaning of talent rather than accept a universal or prescribed definition. Thus, they tend to have different talent targets. Whilst talent can be categorized as valuable, rare, and hard-to-imitate, the specific prescriptions regarding ‘talented employees’ are unclear, and there is no universal definition of great talent. The definitions-in-use of talent will depend on an organization’s business strategy, the type of firm, the overall competitive environment, and so on. Therefore, it is often argued that definitions of talent should be tailored to individual organizations and regions, such as the Mediterranean region.

Particular issues for such companies are how to attract talent, identify and develop it, and retain it, as high levels of labour turnover among knowledge workers mean that issues of talent loss and ‘brain drain’ have become significant. After a discussion of the economic and skills issues faced by companies in the Mediterranean region, and what companies mean by ‘talent management’, the paper discusses research into changing global talent management and discusses the results from interview studies of changing talent management in China to develop a research agenda to analyse in more depth changes in talent management policies and practices in high-tech companies in the Mediterranean region

**Keywords:** Talent management, HRM,, high-tech, Mediterranean

**AMBIGUITIES OF SUSTAINABILITY AND OPERATIONS ASCRIBED TO  
ADVENTURE TOURISM COMPANIES THAT USE ENVIRONMENTALLY  
SENSITIVE DESTINATIONS AS A TOURISM RESOURCE: A COMPARATIVE  
STUDY OF SWITZERLAND AND WALES**

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**Abstract**

**Purpose:** The advent of climate change and the ever growing pressure from the ‘green lobby’ as well as policies by governments (Lominé & Edmunds 2007, Price Waterhouse 2008) have compelled most tourism companies to evaluate their environmental procedures and reflect on sustainable models of business. Furthermore, the creation of environmental tourism awards and the exponential need to market a company as ‘environmentally friendly’ have become extremely important for some companies within the tourism industry (Responsible Tourism 2010, Responsible Tourism Awards 2010). It is purported that tourism companies that operate in environmentally sensitive areas have developed an impetus to adopt sustainable business models and practices. Adventure tourism companies may be placed within this category, with some clearly embracing the notion of sustainability to the extent that they have capitalised on this product (sustainability) to ensure growth and profitability (TYF 2010). Adventure tourism’s popularity is now global with concomitant global impacts. Paradoxically however, the survival of national parks, which are the benchmark used to measure pristine natural environments, is in many respects contingent upon tourism, which has the potential to destroy pristine wilderness (Eagles & McCool 2000, Shackley 1996).

**Design/methodology/approach:** This research was designed to evaluate companies that exploit these pristine environments as tourist destinations. The notion was to assess adventure tourism companies, national park agencies and other organisations whose role it is to preserve these natural areas for future generations. The research examines sustainability in national parks and the operations and policies of adventure tourism companies. Adventure tourism is certainly a post-modern and post-tourist product which has developed at an accelerating rate (Swarbrooke et al 2003, Jenkins 1993). Two countries were chosen because of similar characteristics: Switzerland and Wales. They are comparable in population size and area of country. In addition, Switzerland is highly ranked, having one of the few class one national parks left in Europe; whereas Wales’ National Parks are all considered to be of a lower status, due

to human interference. Both countries are endowed with countryside and natural resources that attract a significant tourism segment.

The research was based upon a qualitative approach and methodology, as the researchers discovered that there is currently, sufficient quantitative data on many aspects of this phenomenon. Empirical evidence was based principally upon qualitative assessments of tourism and adventure tourism actors. The aim was to collect 20 interviews, using semi-structured schedules (Robson 2002), eliciting narratives on sustainable adventure tourism operations. The companies were chosen on a Judgement and Snowballing framework of miscellany (Robson 2002), with the intent to ensure that the companies reflected, to some degree, the differences in the adventure and sustainable products being offered to consumers in national parks. This information was analysed using Discourse methods and is presented (Crowther & Lancaster 2009) in the form of themed matrix tables interconnected to a number of sustainable premises and milieu. The narratives were supplemented with fieldwork and observations, including observational methods and visual collection (Robson 2002). This is a working paper drawing upon secondary quantitative data and further embellished with primary evidence collected from adventure and tourism operators.

**Findings and Originality/value:** Several interesting perspectives are emerging from the research: Firstly, the motivation of a company to engage in sustainable paradigms raises questions of relevance, awareness and cost to the adventure tourism company. Secondly, the notion that the consumer may not really be concerned about the sustainability of a company's operations or indeed their (tourist) impacts on the environment of a national park. Thirdly, the image of being sustainable may detract from the overall product or experience for the tourist. Finally, some operators simply see sustainability as profit and loss, solely related to the survival of their company in the market place; hence they appear to have limited understanding of the need to change their operations towards a 'greener business model'.

**Findings and Originality/value:** This research is of significant value to the adventure tourism industry and national park management plans. It is one of the first studies to look at sustainability and a new type of business model for this market segment. It also has implications for the planning and monitoring of national park tourism and how this type of tourism is allowed access, control and management of a wilderness environment. It is suggested that this study could be used as a model to evaluate other environmentally sensitive locales and to assess the globalisation of adventure tourism and its impacts on environmentally sensitive areas.

**Keywords:** Wilderness Environments, Sustainability, Qualitative Methods, Business Models, Adventure Tourism Market

## COMMUNICATION AND EMPLOYEES IN AN INTERNATIONALLY SEPARATED WORKPLACE

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### Abstract

**Purpose** – Although organizations recognize that effective communication is significant to their success, it remains the case that organizations appear reluctant to investigate their communication climate. The aim of our paper is to report on a pilot project that assesses the organizational communication of a well established multinational corporation well aware of the importance of communication in organizational life.

**Design/methodology/approach** – This study appraises the effect on communication following the relocation of part of a sourcing operation to another European venue, effectively splitting managerial trading staff from 'back room' operations against the theoretical bases.

**Findings** – Our study found that while the majority of employees were highly satisfied with their salaries and co-worker communication in their home countries, less positive results were observed in higher management-employee communication, and there was a desire for greater communication between national locations at co-worker level.

**Originality/value** – Based on the strong reliability coefficients that the results of our study obtained, our main conclusions suggest that organizational communication may influence employees' feelings of organizational commitment reflected in a perceived lack of career opportunities or ability to engage with organizational strategy despite recorded job satisfaction and satisfaction with salary.

**Keywords** – organization communication, international work place, management-employee communication, job satisfaction

### Communication and Employees in an Internationally Workplace

The importance of communication for the effectiveness of organizations and the wellbeing and motivation of employees is widely acknowledged (Tourish and Hargie, 2000). Organizations themselves concede that effective communication is a significant factor to their success (Brandon, 1995). Research has found that the amount of information provided by management reduces uncertainty among employees and increases their satisfaction and commitment (Schweiger and Denisi, 1991). Consistent

with the organization strategy, research has also found that the role of shared communication enhances business performance (Prahinski and Benton 2004).

The aim of our paper is to report a pilot project that assesses the organizational communication of a well established multinational organization well aware of such effects. The multinational organization involved took part in a communication audit to determine the internal communication effects within their supply chain operation when they split their backroom logistics from their trading desks across two European destinations. The business of the subsidiary concerned is sourcing raw materials within a supply chain context. This is a context where effective communication is seen as a means to competitive advantage (Bechtel and Jayaram, 1997; Mentzer, Flint and Hult 2001), and good internal communication is key to effective business operation.

By applying the Welch holistic model of Organizational Communication to our study, we corroborate that the most influential situations that affect organizations is the interaction between superior-subordinate. The MNC studied seems to have achieved a good social interaction among co-workers in the same country, however; the relationship between superior and subordinates has been found to be less satisfactory. In particular, structures relating to communication seem to be lacking in the divided location scenario. This lack of communication structure has implications for the culture of the organization where inadequate communication coordination influences the attitudes and behavior of the employees. Results of this study have revealed even though, the majority of the employees were satisfied with their salaries and job positions dissatisfaction with career opportunities, and a lack of engagement with strategies and plans for the company were evident, potentially affecting the cultural outputs of attitude and behavior which in turn may feedback as input into the significant organizational interactions. This study then may have helped to isolate those aspects of job engagement most affected when organizational communication is lacking.

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## **SURVIVAL STRATEGIES AND COMMUNICATION EFFECTIVENESS IN A RAPIDLY EXPANDING HOTEL INDUSTRY**

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### **Abstract**

The aim of this abstract is to shed light on the survival strategies essential to build up consensus over corporate values in uncertain work environments. The case of an international Hotel industry in the luxury sector is being developed to demonstrate how effective internal communication can help to create a shared corporate culture in rapidly expanding business settings. According to its projections, it is estimated that the workforce will grow 50% within the next five years. Hospitality industry holds a labour intensive industry structure, which requires a large amount of human capital to produce its goods or services. This means, the proportion in which labour is used to gain the revenues is much higher than the proportion of capital. Indeed, human capital is essential to hospitality industry.

The massive growth of the workforce at the investigated hotel industry constitutes a threat to its unique culture. Risks are concerned with a loss of common understanding of the corporate culture in all regions worldwide and inability to fulfil the brand promise to the hotel guests who relates to the finest traditions of European heritage. The management is aware of the necessity to find out the best communication strategies to trigger consensus over these core corporate values: tradition, initiative, engagement, family and passion. These values were defined by the employees themselves through a two-year survey. Managing a shared corporate culture proactively and creating common ground will allow corporate culture to be successfully transferred and recognised in international and intercultural settings.

It is here proposed to identify an appropriate global corporate training design to allow the universal recognition and acceptance of the newly created organisational reality. We'll be investigating the best training methods to implement the core values across different cultures through an online survey on all sixty hotels around the world. The interviewees will be front line managers Food & Beverage, front office, rooms division, housekeeping, Human Resources and Sales & Marketing. Can personnel worldwide identify with the five core values? How can value based stories be translated cross-culturally? Would identifying with the core values and participating in

training sessions increase employee commitment to the brand contract, and to the company?

Corporate communications play a crucial role in the construction and re-construction of corporate realities as a result of the people's acceptance and commitment on newly created meanings. Our effort is to propose the appropriate communication tools to overcome resistance to change. It is in work environments characterised by massive workforce expansion that different interpretations of corporate values develop and cause conflicting practices inside organisations and loss of credibility externally.

Our new contribution to the studies of innovation management lies in the elaboration of an appropriate global corporate training design crucial to maintain and foster integration through communication in rapidly expanding organisational settings.

The practical importance of this investigation relates to the implications of learning new skills for managers active in innovating. Survival strategies are necessary to overcome the problem of control in uncertain work environments due to rapid expansion.

**Keywords:** Survival Strategies, Communication Effectiveness, Expansion, Hotel Industry

## Biography

**Peter Juskiw:** A PhD candidate at Walden University, Minneapolis USA, Mr Peter Juskiw (MA, MCIPD.) has been a full member of GIHE faculty since January 2005. Before joining the faculty he lectured in the UK at various academic institutions such as West Herts College on courses accredited by the University of Hertfordshire, visiting lecturer at Middlesex University, Thames Valley, University in human resources related subjects on mainly professional and post graduate courses. Before going into the lecturing profession he worked as a Human Resources Manager at Hewlett Packard and other blue chip companies. His research interests include human capital theory, career development, performance improvement and knowledge management. His research interests are in internal branding and cross-cultural communications. His recent papers in internal branding and cross-cultural communications have been presented in Dublin, two working papers will be presented in Amsterdam and Cork.

**Ivana Modena** is Professor in Communication Management at the International University of Geneva. She achieved her PhD in Sociology at the Goethe-Universität, Frankfurt, a Master of Arts in Intercultural Communication for International Business at the University of Surrey, UK. Her book published in Germany in 2005 is an empirical study on the cultural impact of global brand communications of a multinational company on its local business units. Her recent working papers about corporate communications in changing organisational settings have been presented in

Barcelona, Washington, Singapore and Beijing at conferences organised by European and American Communication Associations. Her research and teaching experience includes publishing her working papers in academic journals or conference proceedings and giving courses in England, Italy and Switzerland.

## A SYSTEMS APPROACH TO CHANGE MANAGEMENT

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### Abstract

**Purpose:** As change is a constant feature of organisational life, both at an operational and strategic level, and given the importance to any organisation of its ability to identify where it needs to be in the future and how to manage the changes required getting there, the area of change management is a topic of wide research. The change management literature, however, is full of claims that change failure is the norm rather than the exception, with change outcomes often failing to meet anticipated objectives.

This paper aims to critically discuss some of the issues that often result in change programmes failing to meet their objectives. The paper then discusses how a systems approach can help organisations in their change initiatives. The proper identification and setting of boundaries of the system of concern, as well as achieving an effective level of communication and stakeholder participation are highlighted in the paper as important issues during any change intervention.

**Design/Methodology/Approach:** The paper follows a review of the relevant change management and systems literature. This review first provides a classification of organisational change concepts and theories and sheds some light on why the various change management tools and approaches so frequently fail to deliver what they have promised. The paper then presents the key characteristics of a systems approach to change management as an alternative change intervention approach.

**Findings:** To deal with the high level of complexity and uncertainty that change usually involves, managers are faced with a wide range of contradictory and confusing theories and approaches, which all promise immediate solutions to all problems. Such approaches, however, being not holistic in nature, take little account of the interactions between the participants, and try to arrive at quick solutions that bring immediate benefits.

Change management programmes fail because they focus only on parts of the problem situation and do not recognise that optimising the performance of one part may have consequences elsewhere that are damaging for the whole. Given that there are different types of organisational change with interconnected and interacting elements, and that different people affected by the change have divergent interests, it is suggested that this diversity and interactions be managed systemically. Change can be managed more effectively if the different views, agendas and political positions of all stakeholders are identified and the various interrelated and interacting elements of the

system are given proper consideration. The existence of an effective communication channel and involving all stakeholders in the change management process are expected to reduce resistance and to create a higher level of psychological commitment among employees towards the proposed change. As such, these are important prerequisites to the systems approach to change management.

Responding to complexity is one of the central attributes of the systems approach. The current global economic situation, the level of pressure that organisations face, and the impact on the ever increasing level of complexity and uncertainty can be dealt with more effectively if a systemic approach is used.

**Originality/Value:** By advocating a systems approach to change management this paper makes an attempt to bridge the gap that exists between change management theory and practice, and to bring together the important areas of change management and systems thinking.

**Keywords:** Organisational change; systems thinking; systems approach.

## Biography

**Harry Kogetsidis** is a lecturer in the School of Business at the University of Nicosia in Cyprus. His teaching and research interests are in management and management systems and his work has been published in peer reviewed academic journals and presented in international conferences in Europe, the United States and Australia. Harry has developed and delivered graduate and undergraduate courses in the United Kingdom and Cyprus. He has also developed distance learning material on forecasting and trained middle and senior managers in forecasting methods. He is a member of the UK Systems Society and the British Operational Research Society.

## CONSUMER PREFERENCES FOR CASK WINE IN GREECE APPLYING THE BEST-WORST SCALING

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### Abstract

**Purpose** - Even though cask wine (soft pack, bag-in-box) has not brought considerable attention to wine marketing research, there is an increased interest both by wine makers and consumers. Moreover, international developments show that cask wine has potential to further evolve, with its sales showing a growth across major wine consuming countries, such as France, the UK and the US (Mueller and Umberger, 2009). Unfortunately, little is known about what drives consumer preferences of cask wine and, furthermore, what is the profile of different cask wine consumer segments. The objective of this study is two-fold: first, to measure the importance of attributes that influence choice of cask wine and second, to segment the cask wine market.

**Design/Methodology/Approach** - To meet the first objective, the best-worst (BW) scaling was applied measuring the degree of importance given by consumers to attributes of cask wine (Cohen, 2009). Seven attributes were taken under consideration: price, quality, convenience packaging, I tried it before, variety, origin and brand name. Seven choice sets of three items each were created through a Balanced Incomplete Block design. To meet the second objective, a latent class clustering approach was applied based on the importance of the attributes (Magidson and Vermunt, 2002). The sample consisted of 250 participants who had purchased cask wine at least once in the past. The web-based survey took place in Greece on March 2009 and was carried out by a professional market research agency.

**Findings** - A general analysis of the BW scores revealed that the most important attributes for bag-in-box wine were price, quality and convenience packaging. On the other hand, brand name, variety and origin of wine were found to be the least preferred attributes. In comparison to previous similar studies on bottled wine (Goodman, Lockshin and Cohen, 2007), the importance of attributes seems to differ (e.g. variety and origin are among the most important attributes in bottled wine) suggesting that cask wine market is different and should be positioned differently as such. In relation to the market structure, the latent class cluster analysis revealed the existence of four distinct segments. The segments were interpreted on the basis of the relative importance towards each attribute and were labelled as: "Connoisseur",

“Convenience seekers”, “Experienced” and “Risk Averse”. Finally, differences were investigated based on consumers’ socio-demographic and behavioural aspects.

**Research Implications** - The findings of the study provide powerful advice to marketing managers on which cask wine attributes should they focus in order to position and communicate cask wine, and further target different consumer segments.

**Research Limitations** –The selection of cask wine attributes used in the BW scaling was rather arbitrary. Even though it was based on wine experts’ recommendations, a need for a qualitative study that would identify, and probably back-support, the selection of attributes from a consumers’ perspective would be ideal.

**Originality/Value** - Few, if any, studies have explored consumers’ perceptions towards cask wine. Moreover, the study is among the first to the use the BW scaling in such a context.

**Keywords:** Cask Wine, Greece, Consumer Preferences, Best-Worst Scaling, Latent Class Cluster Analysis.

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## BRITISH EDUCATED CYPRIOT BUSINESS GRADUATES AND THEIR CAREER PROSPECTS WITHIN THE CYPRIOT LABOUR MARKET

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### Abstract

**Purpose:** One of the most debated issues within the European labour markets, especially during the last decade, has been the value of higher education (CIPD, 2006, Kyriakidou, 2006; Holden and Harte, 2004). To promote UK Higher Education to overseas students, the British government has established the Prime minister's Initiative for International Education (PMI2), a 5 years' strategy aiming to attract an additional 100,000 overseas students to study in the UK (<http://www.britishcouncil.org/eumd-pmi2.htm>, accessed in 12/01/2009). That translates into about 10 to 15 per cent of all students coming from overseas. One of the main European student cohorts studying in the UK are Greeks and Cypriots (Eurydice, 2008, 2000). The aim of this paper in progress is to explore the career trajectories of the British-educated Cypriot business students following their graduation from British Higher Education Institutions. Of particular importance in Cyprus, is the weak links between educational institutions and organisations operating in the economic field. This phenomenon is attributed to the gap between the increasing number of people entering higher education and the limited demand in the domestic economy for highly educated personnel. Indeed, only in December 2007, the Economics Research Centre at the University of Cyprus conducted a research regarding students' employment and earnings expectations in Cyprus. Key findings showed that most students (62,7%) in the sample expected to be unemployed after graduation, while 37,3% expected to be employed within three months after graduating from university (Stavrou, 2007).

In the light of the above, this study investigates the extent to which graduates' career expectations, decisions and outcomes are shaped by initial choices regarding country of study and courses, the national environment, structures and culture (Mihail, 2008; Mihail and Elefterie, 2006; Kyriakidou, 2006).

**Design/methodology/approach:** The study undertakes a multi-level analysis in order to assess the subtle interactions between higher education structure and policies, organisations' recruitment strategies, and the country's culture and tradition. Its empirical base draws from a graduate questionnaire survey, focus groups and semi-structured interviews with graduates, course directors, and a career adviser.

Key objectives focused on: the factors influencing graduates decision to study; decision making after the completion of their degree studies; value of their degree in the labour market; career progression and barriers to progression.

Findings: The study highlights the importance of socio-economic influences on Cypriot students' degree choice and their career activities after graduation. Main findings focus on factors impacting on the initial degree decisions and students' aspirations; the impact of British education on the career trajectories of Cypriot business graduates and the barriers, perceived or real, to graduates entering employment and receiving promotion in terms of different national labour markets for graduates, the increasingly diverse recruitment base and career opportunities to different range of business professions and roles. In general terms key findings revealed the difficulties respondent graduates have experienced in finding desirable jobs.

Business implications: It could be argued that, in many respects, the Cypriot labour market structure is relatively uncondusive (and perhaps non-responsive) to graduate employment. There are still weak links between academic establishments and the operation of the labour market in Cyprus, as most small and family-owned Greek businesses are unable to absorb the increasing number of graduates. Evidence from this study, also showed that there are doubts about whether the skills British educated graduates acquired on HE programmes are those that employers required or were prepared to pay for. Overall, the main issue that emerged from the findings was that, British educated business graduates' employment opportunities did not only depend on the nature of their degree studies per se, but also on the extent to which the Cypriot labour market was able to absorb them.

Originality/value: Little research has examined the ways that national context/culture impacts upon graduate expectations, decisions and career trajectories. A unique aspect of this study lays in its attempt to directly examine graduates' perceptions of their studies and graduate career trajectories though a country specific case. In this regard, the contribution of this study is to explore the linkages between higher education and employment and therefore, investigate the actual value of the degree studies within the Cypriot labour market. Therefore, this study challenges the assumptions, so dominant in the European educational policy discourse, concerning the supposed merits of expanding higher education.

**Keywords:** Cyprus, Graduates, Higher Education, Career Trajectories, Employability

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# CREDIT RISK ANALYSIS OF SMALL-MEDIUM ENTERPRISES (SMEs): EMPIRICAL CREDIT RISK RATE (ECRR) AND CLUSTER ANALYSIS TECHNIQUES (CAT) IN A RETAIL LOANS PORTFOLIO

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## Abstract

**Purpose:** The aim of the paper is to develop a qualitative and quantitative credit risk rating model for SMEs, which represent the cradle for development in regional and metropolitan economies as well; the proposed model is consistent with the Capital Adequacy (Basel II) Requirements in relation to credit risk. It also takes into account the sectorial Empirical Credit Risk Rate (ECRR) of a Retail Banking Portfolio (Dependent Variable), of various sectors (under STAKOD typology), and the grouping of SME's in separated clusters with respect to their credit risk exposure. This risk bucketing is based on a sample data of 1.000 SME's over the period 2006-2009, obtained from a bank.

**Design and Methodology:** To examine the determinants of the risk of small/medium Greek Firms, we propose the following fixed effects formulation:

$$y = a_0 + a_1 \text{FR}_i + a_2 \text{Coll}_i + a_3 \text{Qual}_i + a_4 \text{Due}_i$$

where  $y$  is the dependent variable (ECRR-Credit Risk),  $a_0$  is a constant, the FR are Financial-Ratios (these ratios are liquidity ratios, capital structure ratios, profit ratios, cost ratios and general ratios, that cover all financial parts and give information for all financial characteristics), the Coll (collaterals, i.e. mortgages, cash collaterals, bonds and others), the Qual (Qualitative characteristics, i.e. customers' credit history, market concentration and administration's quality) and the Due (due debts and duration on expiry) are the independent variables. Using the above formula one would get the score for a loan if information on all parameters specified above is available.

We use cluster analysis K-Means Cluster Analysis Methodology for developing a Risk-Based Matrix that addresses a loan portfolio individual characteristics for different sectorial groups of enterprises. K-Means Cluster Analysis procedure requires that the number of clusters be specified to run the analysis. The K-Means procedure is applicable for data sets with a large number of cases.

**Findings:** SMEs with higher credibility and better credit ranking tend to give lower volumes of collaterals in taking credit from Banking Institutions. Credit crisis has a

significant effect to enterprises with domestic market activity and medium effects to those with exported activity. Some sectorial groups of SMEs perform differently than others; credit quality depends more on qualitative than on quantitative criteria.

**Practical Implications:** Developing a Risk-Based Matrix that addresses loan portfolios characteristics enables Banking Institutions to evaluate maps with important piece of credit information between different SMEs sectors. Matrices serve as a quantitative and qualitative framework for analyzing portfolios' quality. They are particularly useful for gaining group consensus on prioritizing Banks' funding decisions. It also provides for policy makers with a simple lens through which to view the decision space of SMEs wise lending.

**Originality/Value:** Exhaustive research has been made on credit risk and models proposed for ranking credit quality. Few of them combine the widespread K-Means Cluster Analysis methodology with SMEs credit characteristics based on quantitative and qualitative factors and a Risk Based Matrix.

**Further research:** The calculation of Expected Loss in a SMEs loans' portfolio with respect to different types of clusters for SMEs

**Keywords:** Credit Risk, Bank's loan Portfolio, Quantitative and Qualitative criteria, Cluster Analysis

## THE MiFID REVOLUTION: HUMAN CAPITAL AND TECHNOLOGY, REVISITED

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### Abstract

This paper deals with the recent changes brought in European financial markets by the Markets in Financial Instruments Directive (MiFID). Adopted in November 2007, the text provided a homogenised framework for the provision of investment services, and contributed to the redefinition of markets all over Europe. Its initial goal was to build an integrated, transparent and effective pan-European market infrastructure, drawing among other sources, on the partial failures of the former directive in Investment Services (1993).

The incremental change (Streeck & Thelen, 2005) at work from the surge of Euromarkets not only underpinned the growth of trading in transnational private financial markets; it also spread the matching ideology that markets coordinate their own effective self-regulation. In fact, private non-transparent markets have steadily gained ascendancy over regulated exchanges. Long organised on a mutual basis, they were run as monopolies – particularly in continental Europe – by virtue of their quasi-public dimension. Today however, the main European execution venues have been demutualized and transformed into for-profit listed companies struggling with their newborn competitors. MiFID abolished the concentration rule in countries where it still existed (such as in France), whereby the vast majority of orders had to be executed on a regulated market.

The new era that opened in 2007 has achieved a genuine “market for markets” in Europe, leading to structural modifications, both on market participants, and market infrastructures. Our research aims at defining these main actual outcomes that have since then taken place in the market's ecology, with regards to market infrastructure and human capital. MiFID, like any such important regulatory initiatives, has had a definitive impact on the everyday routines, practices, tools and organizations taking place within and around financial institutions.

In order to achieve such a goal, we use social studies of finance (Knorr Cetina & Preda, 2005; Callon, Milla & Muniesa, 2007; MacKenzie, 2008) and the related methods, including but not limiting to documentary research and semi-structured interviews. We also draw on a long-lasting participant observation (2006-2009) within the trading

room of a pan-European brokerage house. This observation began a year before MiFID came into force, and allowed us to take part to the different process leading to the implementation of the regulatory text, either internally (project groups within the structure) or externally (through the participation to lobbying initiatives).

Our study roots with recent research showing that the actual MiFID outcomes are far from the predicted ones (Hautcoeur, Lagneau-Ymonet & Riva, forthcoming 2010). Competition among markets for capturing trading flows has led to a fragmented and opaque market: only major actors seem now able to invest enough in information technology in order to obtain, consolidate and exploit a dispersed information among “dark” and private markets. This institutional setting creates huge informational asymmetries among financial institutions, and the relating opportunities for extra-marginal returns from IT investments, depending on both information availability and rapidity in its exploitation (translating in high frequency and algorithmic trading). Those returns push financial institutions not only to invest in IT but also to recruit the needed skills for building, maintaining and employ these technologies. Financial players need new kinds of human capital for maximizing their returns. Moreover, the huge investments in technology affect market practices, which in turn seem to contribute to both increase market volatility and disrupt the orderly functioning of the market by allowing more speculative and risky operations.

Thus, this paper first contributes to the very limited academic research on MiFID and its outcomes: it will also actively participate in the ongoing MiFID revision, launched earlier this year by CESR. Second, it shows the importance of the regulatory framework in shaping market practices through the ascription of a mediating role to the technology. Third, it underscores the extent to which micro-rules as well as micro-behaviours could in the end entice macro-output on the financial exchanges, should they be regulated markets, or propose alternative modes of execution. The limit of our approach is directly linked to our ambition: market data is of limited availability, especially as regards the most opaque market segments (“Electronic Crossing Networks” and “Dark Pools of Liquidity”). This being acknowledge, we think that we cannot escape from the task of contributing to a critical assessment on the outcomes of such an important regulatory initiative.

**Keywords:** MiFID, regulation, human capital, technology, institutional change

## Biography

Marc Lenglet is Assistant Professor of Management at the European Business School (EBS) and Chaired Professor of Socially Responsible Corporate Behaviour. He holds a PhD in Management Sciences from the Paris-Dauphine University, a Master in Philosophy from the Paris-Sorbonne University and a MBA from ESSEC Business

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Angelo Riva is Professor of Finance and Economics at the European Business School (EBS). He holds a PhD in Economics from Orleans University, and is an associate researcher at IDHE – University of Paris Ouest Nanterre La Défense. His research interests focus on the long-term evolution of financial systems (19th-20th centuries), and the relating institutional and organization changes.

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## **TOURISM AND AIRLINE POLICIES: 4Cs (COOPERATION, COORDINATION, CONSIDERATION, COMPATIBILITY) FOR SUCCESSFUL DESTINATIONS.**

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### **Abstract**

In tourism literature, policy is synonymous with the involvement of the government into the remits of planning, developing and organizing the destination. In the case of the airline industry, policy is verified from a supranational body, namely the European Union which sets out guidelines for all the member states. This paper aims to examine how the tourism and airlines policies in Cyprus are formulated in an attempt to discern the ways in which they are interwoven, affected and acted upon. In addition, it provides a thorough examination of the impediments that prevent the actual implementation of policy principles in both industries. The primary data is based on qualitative results of 26 semi-structured interviews with powerful and 'elite' tourism and airline policy makers in Cyprus. The results of the research suggest that there is a conflict that is attributed to the gap between the airlines' and tourism experts' perceptions. In particular, tourism is more destination-centric; whereas the airline industry is based on a supra-national and a global approach. Thus, cooperation, coordination, consideration, and compatibility (the 4Cs) should be forged among the two industries in order to achieve more positive effects.

**Keywords:** tourism policy, airline liberalisation, Cyprus, European Union.

## THE FUNCTION OF RHETORICS IN MARKETING AND ADVERTISING DISCOURSE

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### **Abstract**

The function of rhetorics, with respect to its both verbal and nonverbal aspects in marketing, is to define the context in advertising. The analysis of rhetorics in modern marketing and advertising show that advertisements do not only transmit messages and information, but there are also many differing manners and styles in which we can transmit the desirable messages and information to consumers. Therefore, rhetorics, expressions, language and given context are a significant element in marketing. Rhetorics combined with acoustic and visual elements in advertising enables marketing experts to communicate with consumers on a more sophisticated, emotional and aesthetic level with respect to human psychology. Parallel with the development from market-oriented to holistic marketing, the rhetorics and language of marketing have also changed. The advertisements are no longer drafted exclusively on the concept of appealing to the consumer, but now they are based upon the simultaneous communication messages and strategies that create the long-term relationships between goods and services and their consumers. Following this development, this paper analyzes the new function of rhetorics in marketing and advertising on the selected samples of advertisements, marketing messages and slogans. We will analyze which concept of rhetorics in marketing from those described above prevails in selected samples and how each concept influences diversity in advertising from the aspect of consumer's ability to distinct products affiliating a slogan to the specific product.

**Keywords:** rhetorics, advertising, marketing, slogans

## HOW ARE OPPORTUNITIES DISCOVERED IN CROSS-CULTURAL ENTREPRENEURSHIP?

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### Abstract

**Purpose:** The main aim of the present work consists of defining how new opportunities are discovered in cross-cultural entrepreneurship.

To define our field of research we have combined two different aspects. On the one hand we have considered the relevance assumed by Shane's (2003) theory about opportunity that has prompted several authors to develop this field of research. Particular attention is paid on Sarasvathy et al.'s contribution (2005) who have focused attention on the ways opportunities come to existence by pointing out the differences between the allocative, discovery and creative views. On the other hand, the growing interest in cross-cultural entrepreneurship, i.e. individuals who after leaving their origin country have carried out entrepreneurship in a destination country, has limited our field of study.

To inquire how the opportunity-based process starts in cross-cultural entrepreneurship we need to consider the role of culture typical of origin countries and the role of the external context in destination countries. The ways they can be matched, giving as outputs four different approaches, drive us to our final purpose which consists of listing all the possible variables able to explain how the phenomenon of cross-cultural entrepreneurship takes place, especially in the form of new ventures creation (Sorrentino, 2003).

**Approach / Design / Methodology:** To develop the present work, we will use a theoretical model proposed by Chiesi and Zucchetti (2003). According to the authors, cross-cultural entrepreneurship can be explained through four approaches:

- supply side: entrepreneurship is basically due to factors depending on the culture of the origin country. It is something embedded in individuals and it allows the birth of new entrepreneurship without analyzing the external context (socio-economic) in the destination country;

- demand side: entrepreneurship comes to existence thanks to the socio-economic context typical of the destination country. In this case, the role of environment is determinant while the role of individuals decreases in importance;
- mixed embeddedness: according to this approach entrepreneurship is the result of both demand and supply sides. Culture of the origin country and context features of the destination country are necessarily combined;
- vacancy chain: it represents a mere substitution between old entrepreneurs born in the destination country and new entrepreneurs moved to this country.

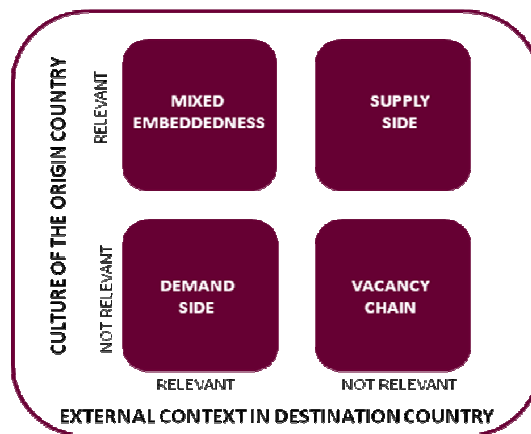


Table n. 1

Starting from the above model (Table n. 1), we will proceed by reviewing the existing literature about two main topics. The first is the entrepreneurial phenomenon by highlighting how it comes to existence; the second is a special focus on the cross-cultural perspective of the phenomenon itself. This qualitative methodology, despite its limits, enables us to build a complete framework (which represents our first goal) and, eventually, it enables us to verify if a quantitative survey can be done.

**Findings:** Through the use of this methodology our expected finding is an exhaustive list of variables. Hopefully, this list can explain each of the approaches considered in the above model and it can let us classify how cross-cultural entrepreneurship rises.

**Further Development:** As anticipated, by filling a list of variables we could think of different qualitative and quantitative analyses connected to the topic. Some alternatives could be:

- a survey explaining differences in cross-cultural entrepreneurship among different destination countries, regions or cities;

- a survey investigating the ethnic influence on cross-cultural entrepreneurship. The research will try to define if any ethnic group follows a specific approach;
- a survey concerning several industries as classified by Pavitt (1984).

**Originality/Value:** The present study, after analyzing the relevance of culture of the origin country and of external context in the destination country, tries to identify the variables building a theoretical framework. Of course this framework is expected to be useful to conduct further researches in different contexts (geographical, sectorial, ethnic) and to explain cross-cultural entrepreneurship.

**Keywords:** Opportunities; cross-cultural entrepreneurship; entrepreneurial development.

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## THE DEVELOPMENT OF COLLABORATIVE KNOW-HOW THROUGH THE LEVERAGE OF ALLIANCE EXPERIENCE: THE CASE OF THE CAMPANIA AEROSPACE INDUSTRY

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### Abstract

**Purpose:** The purpose of this study is to analyze intra-firm learning from previous alliance experience through the development and adoption of ad hoc organizational mechanisms. The investigated research question is: Do (and which kind of) alliance experience and deliberate learning mechanisms lead firms to alliance portfolio success?

The aim of the paper is therefore to make a contribution towards the understanding of those organizational mechanisms leading to the generation and development of a firm-level collaborative know-how, i.e., the ability to manage each phase of interorganizational collaborations (Simonin, 1997).

**Design/Methodology/Approach:** Focusing on the critical role that the management of strategic alliances plays for their success (Simonin, 1997; Anand and Khanna, 2000; Ireland et al., 2002; Kale et al., 2002), we use a three-dimensional theoretical framework in order to explore the relationship between collaborative experience (first dimension) and alliance portfolio performance (second dimension), as mediated through the adoption of organizational mechanisms (third dimension) for codification, abstraction, sharing and protection of the former in order to improve the latter.

In particular, we evaluate whether alliance experience (and of which type) has a positive effect on alliance portfolio performance and whether such an effect is indeed mediated by the use of deliberate learning mechanisms.

As to alliance experience, apart from the number of alliances, we look at its diversity in terms of governance structures and alliance goals. Following Heimeriks and

Duysters (2007), we consider a 5-year period as an adequate temporal horizon reflecting the alliance contribution to firm's alliance experience.

We use the performance of firms' alliance portfolios as dependent variable since we are interested in exploring the average impact of experience and organizational mechanisms on firms' alliance success. Indeed, firms' alliance capability by nature cannot be restricted to one alliance but it needs to be referred to the ability to manage effectively the entire alliance portfolio (Heimeriks and Duysters, 2007). As a consequence, our main concern is not whether a particular alliance is successful or not but rather whether the focal firm, using all of its alliances, is able to achieve the desired strategic goals (Hoffmann, 2005). Specifically, we evaluate alliance performance using managerial assessment (Geringer and Hebert, 1991; Kale and Singh, 2007) on different dimensions of alliance success: achievement of alliance objectives; enhancement of competitive position; learning of critical skills and capabilities; building of a strong relationship with alliance partners; contribution to firm image.

Finally, several deliberate learning mechanisms are investigated: databases containing the firm's alliance history, manuals, checklists, formal and informal debriefings of alliance managers, alliance training systems, rotation across different partnerships of experienced alliance managers, alliance managers, dedicated alliance functions (Simonin, 1997; Kale et al., 2001, 2002; Zollo and Winter, 2002; Draulans et al., 2003; Heimeriks and Duysters, 2007; Kale and Singh, 2007). In line with Heimeriks and Duysters (2007), the abovementioned alliance mechanisms are measured by single-item dummy variables so that it could be possible to derive an index synthesizing firms' scores depending on the number of mechanisms in use. Moreover, we also look at when each mechanism was first used, excluding those recently activated since, by definition, they cannot contribute to alliance performance.

Theory is tested through a quantitative analysis conducted on Campania Region aerospace firms. Indeed, the aerospace is a high-tech and innovation-based industry where alliances represent a fundamental element of firm strategy and success. A mail survey questionnaire was therefore sent to firms and assessed by managers responsible for the firm's alliances.

**Findings:** Our study should contribute to shed light on the development of collaborative know-how, meant as the mixed effect of the extent and diversity of experience and its leverage through learning mechanisms, enabling firms to successfully manage interorganizational collaborations.

**Originality/Value:** This study provides and validates a comprehensive framework for collaborative know-how, exploring the combined effect on alliance portfolio performance of several experience and learning dimensions, usually analyzed in isolation in previous research.

**Research limitations/implications:** The study presents two main limitations. First, being tested on a single, specific industry, its results might not be fully generalizable. Second, the mere presence of some alliance mechanisms (such as databases, manuals, checklists, etc.) does not automatically imply their concrete adoption by firms. Therefore, it could be interesting for future research to verify if the framework is still workable when applied to firms operating in other industries and to investigate whether the presence of some learning mechanisms in firms really reflects their actual usage.

**Keywords:** Collaborative know-how, Alliance experience, Learning mechanisms, Alliance portfolio performance

## Biography

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Main research subjects and strands: studies on communication companies; market segmentation models; strategic and competition analysis; firm-market relations in the economics of complexity.

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## CHANGE MANAGEMENT THROUGH THE LENS OF HIGHER EDUCATION

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### Abstract

**Purpose:** This paper considers the implications for managers post change during the transitional period following university status. Examining the experience in the United Kingdom higher education system the article investigates change aspects of a number of institutions as they transformed their status, and deliberates how the emerging themes may be of use within Cyprus's higher education.

**Methodology:** The analysis of primary data applying semi-structured interviews with senior managers in higher education institutions who have been active in educational reforms. The cases examined shared some characteristics that were both similar but also different. The study was to determine how change management decisions and facilitation techniques are embarked upon in the higher educational context.

**Findings:** Based on the interviews a proposed model for managing change in higher education is presented, that considers that stewardship, substance and context that are interwoven and the underlying themes that emerged may indicate issues surrounding a deficiency in leadership.

**Originality:** The main findings of the work consider the restoration of leadership through suitable change management actions and the merging of the activities concerned with vision, social responsibility and the use of appropriate channels of communication.

**Research Limitations:** The institutions researched were within the UK and Cyprus and a wider European view may be worthy for future research. The research did not at this stage consider if there is potential for academic 'drift' in institutions that change their educational status.

**Practical Implications:** The work has relevance for those educational institutions, who may have initiated change, those that are undertaking transitional change and others that may be considering a change of status within the sector.

**Keywords:** Change Management; Leadership; Higher Education; Strategy

## Biography

Ian McRoy is currently employed at the University of Nicosia as Assistant Professor in the School of Buusiness, specialising in teaching Corporate Strategy and Change Management at graduate and undergraduate level.

He has held several director positions in the land passenger transport sector in the UK and offers consultancy services related to training and development opportunities within the sector world- wide, with special emphasis on guidance on the implementation of vocational qualifications and business strategy.

Ian has extensive experience at senior managerial levels in further and higher education in the UK.

He is a Visiting Associate Lecturer for Reading University UK: Henley Business School for the Executive MBA programme and is a supervisor for Middlesex University's Doctoral of Professional Studies programme.

## JOB ATTITUDE PREFERENCES IN CYPRUS

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### Abstract

**Purpose:** The aim of this study was to determine the job attribute preferences that are most important to people living in Cyprus and the extent to which extrinsic and intrinsic job factors are related to Cypriot employees' overall job satisfaction levels. The findings are compared to those of other studies to identify similarities and differences with other countries.

**Design/methodology/approach:** A cross-sectional study was undertaken that involved the use of descriptive statistics, a paired sample *t* test and correlational analysis. A combination of purposive and nonprobabilistic convenience sampling was used to collect data. Usable responses were obtained from 1766 subjects comprised of 366 high school graduating class students, 705 post-secondary/tertiary level students, and 695 employees from 16 bank branches, five financial co-operatives, 15 elementary schools, six secondary schools, five tertiary educational institutions and five semi-nationalized industries.

**Findings:** **The results provided evidence to support that: (1) Extrinsic job attributes** were found to be more important than intrinsic job attributes in determining Cypriots' job choice decisions; **(2) Cypriot employees' overall job satisfaction levels** were significantly related to a composite measure of extrinsic job factor rankings; and **(3) Cypriot employees' overall job satisfaction levels** were significantly related to a composite measure of intrinsic job factor rankings.

**Originality / Value:** Few survey results have been published regarding job attribute preferences of people living in Cyprus. Studies of job attribute preferences in other countries have shown that the nature of the work, i.e. how challenging and interesting is the job, is one of the most important factors in determining people's job choice decisions. The findings of this survey can be used to determine if Cypriots' job attribute preferences are similar or different to those of people in other countries.

**Research limitations/implications:** The validity of the findings depends in part on the extent to which respondents provided answers that were truly indicative of their preferences. A potential limitation is that subjects provided answers that were socially desirable or that contributed to the avoidance of cognitive dissonance. Additionally, respondents may have differed from non-respondents limiting the generalizability of the results. Future research could investigate job attribute preferences of individuals working in other industries in Cyprus.

Practical implications: Human resource managers and managers in general may take into consideration the findings of this study to review and perhaps change their policies with respect to selecting and motivating their employees. Knowing which job attributes are most important to individuals may help managers to select workers who better fit with the job and the organization's culture. It may also help them to provide more appropriate rewards that will be more positively reinforcing.

**Keywords:** Job attribute preferences, extrinsic/intrinsic job factors, Cyprus

## UNDERSTANDING CONSUMER PARTICIPATION IN ONLINE SOCIAL NETWORKS AND THEIR IMPACT ON CONSUMER BEHAVIOURAL RESPONSES

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### Abstract

**Purpose:** The growing popularity and number of users of Social Network Sites (SNS) worldwide have attracted the attention of many businesses who, as a result, have become increasingly engaged with SNS. However, due to the relative recency of this digital channel, it is not well known yet what is its impact on consumer behaviour. Despite the increasing body of research on consumer behaviour in the context of the Internet, as SNS have become popular during the last few years, until recently research efforts have largely ignored this phenomenon. This research seeks to understand consumer uses of SNS and the extent of their influence on consumer behaviour.

**Design/methodology/approach:** Data were collected through four focus groups with young consumers and an in-depth interview with a marketing professional.

**Findings:** The results indicate that young consumers tend to spend a considerable amount of time on SNS. Nonetheless, they hold mixed attitudes towards the sites. The research also found evidence that friends on SNS can influence brand attitudes by stimulating membership in online brand groups. Also, young consumers tend to trust more and to place greater importance on user-generated content than on brand communication on corporate SNS. In general, user-generated word-of-mouth (WOM) on SNS appears to have the greatest potential for influencing consumer attitudes. What is more, consumers' perceptions of SNS drawbacks may reduce the positive effect of the sites on consumer brand attitudes and behaviour.

**Research limitations:** Conclusions of the research could not be generalised due to the use of qualitative research design and non-representative sample of informants.

**Practical implications:** Findings suggest that marketers need to constantly monitor the brand-related communication generated on SNS and to timely address any concerns expressed there. Through a dynamic and attention-worthy content on their brand SNS, marketers could foster a stronger interest in brand-related themes and events and stimulate stronger consumer engagement in the discussions. They should also take advantage of the potential of this medium for quickly spreading a positive WOM.

**Originality/value:** The study enriches our understanding of the benefits and drawbacks related to the use of SNS from a consumer's and a marketer's points of view. It also identifies which aspects of SNS uses tend to influence consumer brand attitudes and behaviour. Managerial implications are also discussed.

**Keywords:** Social Network Sites, Brand Attitudes, Consumer Behaviour, Qualitative Research

## WEB 2.0 COMMUNICATIONS IN RM PRACTICE OF FINANCIAL SERVICE INSTITUTIONS: EXPLORING THE OPPORTUNITIES AND CHALLENGES FOR RETAIL BANKING IN SEE REGION

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### Abstract

**Purpose:** “Web 2.0” and “social media” are becoming epitomes of modern communication dynamics, reflecting the impacts globalization and “people’s Internet” on the manner businesses and individuals interact and exchange ideas in the vigorous web environment (Cooke, 2008; Pannunzio, 2008). Built on the ideology of the power of exchanges in meaningful relationships, Web 2.0 communications have common grounds with the social networking theories in marketing and share common understanding on the value and implication of relationships with the Relationship Marketing (RM) approaches (Moller & Halinen, 2000; Grönroos, 2004; Pannunzio, 2008). Currently the question in the literature emerges as to how the RM approaches can be effectively implemented by organizations for relationship management in the interactive Web 2.0 setting, and financial services industry is identified as particularly prolific field for future research (Liang et al, 2008; Cooke, 2008; Stone, 2009; Dawes & Brown, 2000; Kapulas et al, 2002). The purpose of this research is to explore the scope of Web 2.0 implementation in RM strategies and to investigate the opportunities and challenges for leveraging the power of “social media” in RM efforts by retail banking institutions in South-East European (SEE) region. This research aims to: (1) investigate the opportunities and challenges of bank marketing in Web 2.0 environment through RM perspective on relationships in consumer markets and build on the past research insights in the field (Kapoulas et al, 2002; O’Loughlin et al, 2004; Argyriou et al, 2005; Egan, 2003); and (2) explore the significance of Web 2.0 communications in RM for retail banking industry in the SEE and fill in the knowledge gap on the RM practices in contemporary digital setting in the region lacking empirical research in the field (Arnaboldi & Claeys, 2008; Lopez Zafra, 2002).

**Design/methodology/approach:** This research is inductive and exploratory in nature, seeking to identify and describe forces influencing the fusion of Web 2.0 communications and RM approach, which until now remained unspecified and undefined in the retail banking industry in SEE, and therefore unviable for measurement and scrutiny (Arnaboldi & Claeys, 2008; Lopez Zafra, 2002). Research explores the phenomena of Web 2.0 and RM through qualitative research



methodology, seeing to obtain in-depth descriptive and explanatory insights on the “how” and “why” questions of Web 2.0 implementation in RM practice for the specific industry and region, based on which specific knowledge and implications can be subsequently formed (Carson et al, 2001; Denzin & Lincoln, 2005). Research design incorporates implementation of several qualitative methods in order to obtain a multiplicity of perspectives on the researched concepts. (1) In order to explore how the RM approach is implemented in practice in online and offline communications and what are the current stances and potential practices regarding the Web 2.0 communications, multiple comparative case studies are conducted on retail banking institutions in SEE (using the methods of in-depth interviews and documentation analysis) (Kapoulas et al, 2002; Stone, 2009; Yin, 2003). (2) In order to obtain insights into consumer perspective on the implementation of Web 2.0 communications in RM efforts, multiple focus groups are conducted with individual customers of retail banks in SEE and “netnography” study of the customer communication and sharing occurring in Web 2.0 channels is performed to reflect on the actual exchange and dynamics taking place in Web 2.0 setting (Onwuegbuzie et al, 2009; Kozinets, 2009). (3) In order to obtain insight into evolution of practice of Web 2.0 implementation in RM and bank marketing, in-depth interviews with management of retail banks in SEE are performed (Kapoulas et al, 2002; Carson et al, 2001). (4) Finally, in order to arrive to practical implications for Web 2.0 strategies for RM future practice, focus group discussion with the management of a selected retail banking institution is conducted (Kapoulas et al, 2002; Onwuegbuzie et al, 2009).

**Findings:** Research is currently in the early stage of conduct and at the beginning of the first stage of fieldwork, and preliminary findings are in the process of generation at the moment of this paper’s submission.

**Originality/Value:** Exploration of Web 2.0 scope within the realm of RM practice in retail banking industry in SEE is presenting several opportunities for introducing fresh perspective on the RM research: (1) by examining the potential of Web 2.0 communications to transform and re-shape RM practice in the banking industry; (2) by seeking alternative approaches to RM practice and evolution from CRM, online database marketing, and vague “interactive marketing”; (3) by focusing on the cases in under-researched region of SEE; and (4) by leveraging the inductive power of qualitative methodologies and introducing novel methods (i.e. “netnography”) in the quest for alternative representations of the realities of studied concepts.

**Keywords:** Relationship Marketing (RM), Web 2.0 communications, retail banking, South-East European region (SEE), qualitative research

## Biography

**Ms. Miljana Mitic** is a first-year full-time PhD research student at South-East European Research Centre and University of Sheffield Management School. Her research topic is titled “Scope for Implementing Web 2.0 Communications in Relationship Marketing Strategies by Financial Services Institutions: Exploring the Opportunities in South-Eastern Europe”, for which she was awarded SEERC research student scholarship. She has MA degree with Distinction in Marketing, Advertising & Public Relations from the University of Sheffield, and she was also awarded with performance award “HEAD’s List certificate – In Recognition of Outstanding Academic Achievement and Excellence”.

**Dr Kapoulas** joined CITY College team on September 2007 as Lecturer in Marketing for 1 year and soon he was appointed to Academic Director of Postgraduate Studies. Before joining CITY College he was the Division Leader in Business Courses in North College a partner college of the University Of Huddersfield, UK. He has also been part-time lecturer for five years in the Derbyshire Business School University of Derby, UK where he taught on marketing and management modules at all levels. He has won the best paper prize in the Financial Services Marketing stream at the Academy of Marketing Conference, findings from his research have been published in the International Journal of Bank Marketing and the Journal of Customer Behaviour. He has also published on various Academy of Marketing and EuroMed Conferences.

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**POST-MERGER INTEGRATION AND COMMUNICATION EFFECTIVENESS: THE  
CORPORATE EXPERIENCE OF GILLETTE MERGING WITH  
PROCTER & GAMBLE**

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**Abstract**

The purpose of this paper is to describe a successful case of post-merger integration thanks to effective communication.

Corporations are affected by the implications of doing business in unpredictable, complex environments. In order for organisations to survive and succeed, they have to constantly move through mergers and acquisitions. The case of a merger between two consumer products companies, 'Procter & Gamble' and 'The Gillette Company' has been chosen as an example of successful integration. January 2005 the Cincinnati-based "Procter & Gamble" (P&G) announced the acquisition of the Boston-based "The Gillette Company" resulting in a manufacturing giant. This deal combined some of the world's top brands by creating the world's largest consumer goods company around the globe. P&G owns a portfolio of approximately 150 brands, ranging from detergents, health care, cosmetics, beauty care, food and beverages. Gillette is best known for its razor business as well as the brands "Oral-B" and "Duracell". The transition phase lasted two years (2006-2007) and it was a big restructuring project of P&G to integrate Gillette people. In 2008 started the post-merger implementation which is the most difficult phase of the acquisition process because it is the reconstruction of an organisational stability where people and brands should finally be integrated. The corporate values of both companies have to be negotiated to model a corporate culture which fit in the P&G people as well as the Gillette people. The organisational culture communicates values which fosters group cohesiveness by sharing the same sphere of identity amongst all employees.

Corporate communications play a crucial role in the construction of new corporate realities as a result of the negotiations of different organisational routines of merging enterprises.

This paper outlines various communication efforts used to build up a new corporate culture in post-merger integration. To what extent does communication facilitate the integration of Gillette people into the business reality of P&G people? In-depth interviews with the executives of Gillette in the British subsidiary of P&G were conducted in March 2009. Opinion was unanimous as to the importance of integrating

the two different corporate cultures of P&G and Gillette. According to these managers the areas of major conflicts were the differences in corporate values, in decision models as well as in oral and written communication. Firstly, the corporate values of both companies have been negotiated to model a corporate culture reflecting both corporations: the integration of the two merging companies led to a more standardised approach by globe and managers developed an acceptance and support for that kind of approach which had not yet been the case for P&G. Then, as a result of the combination of two different decision making models the merged company created a new decision model using the acronym 'PACE' (Process owner, Approver, Consultant, Executor) in order to speed up the process of decision and to create a formal model which give clear directions for action. Every decision implies the participation of one coordinator – the process owner, one approver – the person in charge of the final decision, while one or more consultants or executors are allowed in this decision model. Finally, as a result of the conflicts due to the large use of acronyms in the language of P&G managers, a book about acronyms has been elaborated and some of them have been eliminated.

This case demonstrates that managers adapt to new organisational realities by building up consensus through communication. The communicative efforts of managers of merging corporations to negotiate new organisational realities were crucial to the successful integration of Gillette managers. Indeed, different corporate values, decision making models as well as differences in oral and written communication are communicative contingencies that have to be seriously taken into consideration in mergers and acquisitions in order to avoid failures.

The practical importance of this investigation relates to the implications of learning new skills, behaviours and growth for managers who are actively involved in adapting to changing organisational settings.

**Keywords:** Mergers & Acquisitions, Communication Effectiveness, Multinational Corporations.

## Biography

Modena Ivana achieved her PhD in Sociology at the Goethe-Universität, Frankfurt, a Master of Arts in Intercultural Communication for International Business at the University of Surrey, UK. Her book published in Germany in 2005 is an empirical study on the cultural impact of global brand communications of a multinational company on its local business units. Her recent working papers about corporate communications in changing organisational settings have been presented in Barcelona, Washington, Singapore and Beijing at conferences organised by European and American Communication Associations. Her research and teaching experience

includes publishing her working papers in academic journals or conference proceedings and giving courses in England, Italy and Switzerland.

**INTERNATIONAL TRENDS IN WINE BUSINESS GLOBALIZATION:  
THE RELATIONSHIP BETWEEN CAPITAL STRUCTURE, THE BUSINESS  
GROWTH AND THE PROFITABILITY. A COMPARED ANALYSIS BETWEEN THE  
ITALIAN PRIVATE COMPANIES AND THE COMPANIES LISTED IN THE  
INTERNATIONAL STOCK MARKETS**

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**Abstract**

**Purpose:** The Italian wine companies has a low tendency to open the capital to external partners, just the reverse of what happens in the international wine business scenario. Our purpose is clearing if a capital structure opened to third partners is a necessary condition to an efficient presence on the global market. Also we try to find the internal and external condition needed for the capital widening.

**Design/methodology/approach:** The literary review reflect the main theme on the corporate capital management in the wine business. Then, utilizing several databases, we analysed the financial statements and the market value of the companies listed in the international stock exchanges whose activities are mainly in the wine industry. Also we studied the financial data of the main Italian wine companies divided in four groups based on the different level of sales turnover. On the base of several patrimonial, economical, financial indicator we compare the two subject of analysis in order to highlight analogies and differences in the corporate capital managerial behaviour.

**Findings:** We have analysed the two different clusters and we noticed some relevant common features that may explain the profitability, the growth and the corporate value of the firms which operate in the wine industry.

**Originality/value:** These results may support to forecast the evolution of the wine industry at a local and global level and to design the guidelines of the future strategies for the wine companies that really want to achieve, improve or consolidate their competitive advantages and their financial performances.

**Keywords:** wine business, globalization, corporate value, market value, corporate capital, external partners

## Biography

**Stefano Cordero di Montezemolo** is part time professor of Business Economics and Administration at the University of Florence and he is also visiting professor at the University of Palermo and at the Edhec Business School. His primary scientific interests are in strategic finance, in financial analysis and business valuation, in business planning, in corporate governance. He is entitled of the teaching course in “Strategic finance for the wine business administration” at the Master in Wine Business Management at the University of Florence and the University of Palermo. He is author of several publications on the wine business economics and financial analysis.

**Dr Pucci's** has graduated in 2004 in Economia e Commercio in Florence and he is attending a PhD program in Economics and Management of Enterprises and Local Systems, (University of Florence). His prime research interests are on small business and entrepreneurship, economics and management of innovation, management and marketing of “Made in Italy” and he collaborates with Full Professor Lorenzo Zanni in the University of Siena. He's a member of the Italian Society of Marketing (Simktg) and member of “Accademia Italiana di Economia Aziendale” (AIDEA – Giovani).

**Dr Devigili's** has graduated in 2005 in Economia e Commercio in Siena and he is attending a PhD program in University “La Sapienza”, Rome. His prime research interests are on niche marketing, retailing, consumer behaviour and entrepreneurship and he collaborates with Full Professor Alberto Mattiacci and Full Professor Lorenzo Zanni in the University of Siena. He's a member of the Siena Wine Group and of the Italian Society of Marketing (Simktg). He also works in the publishing industry in marketing and sales.



## THE ROLE OF TOURISM INDUSTRY IN ECONOMY OF AZERBAIJAN REGIONS

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### Abstract

Tourism in Azerbaijan has been defined as an industry of state priority in the national economy. Tourism plays a significant role in the formation of gross domestic product by establishing new working places and ensuring work for residents of the state (for example, the data of Statistical bureau shows that in 2008 there were 123 tourism enterprises in Azerbaijan, which employed 1174 people in this field)<sup>58</sup>. Tourism also is one of the sources of currency income in the state, as well as acts as an activator of foreign trade balance. This industry has an impact on such main industries as transportation, communication, construction, farming, and manufacturing; tourism can be seen as a catalyst of a development in all socio-economic issues of the state.

Within the last four years there have been built 320 hotels in different categories with 30 706 rooms in them. 35 new hotels are under construction at this moment. The amount of tourists visiting Azerbaijan in 2009 exceeds indicators of the last years for around 40 – 45%.<sup>59</sup>

Attractiveness of tourism in Azerbaijan regions from the view of tourism development significantly differentiates, therefore the topicality of tourism as a form of economic activity in regions in the Republic of Azerbaijan has been slightly increased. The topicality of established outputs of several solutions for the tourism development and rational use of them for economic, social and cultural development both for separate regions of Azerbaijan and for the country in total has been founded within the framework of this research.

A market establishing for tourism services mainly deals with a part of a country with developed infrastructure and hotel branch, but several regional tourism resources remains unavailable for flow of tourists due to the lack of modern hotels, several tourism services etc.

**The level of a problem output:** Research analysis about the tourism development in the regions of Azerbaijan indicated that at the moment there are few concrete outputs and researches done about the particular industry. The author made a research and found out that tourism, if it is taken as a part of economic activity in regions of

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<sup>58</sup> State Statistics Committee of Azerbaijan

<sup>59</sup> after the data of the Ministry of Culture and Tourism of the Republic of Azerbaijan - [http://www.alit.as/2010/?l=ru&p=main\\_about\\_exhibition](http://www.alit.as/2010/?l=ru&p=main_about_exhibition)

Azerbaijan, is practically unexplored and therefore forms wide possibilities for innovations, theoretical understanding, and methodological grounds for the development of tourism attractiveness in the regions of Azerbaijan. The results of analysis done can be used in the preparation of tourism development strategy.

**The aim and tasks of the research:** The aim of the research is to analyse the role of tourism industry in economy of the regions of Azerbaijan.

In order to fulfil the particular aim several tasks were worked out:

- establish modern trends for the tourism development in regions of the Republic of Azerbaijan;
- make a comparative analysis of tourism regions in Azerbaijan for defining the priority forms of tourism for every region;
- work out a comparative analysis of tourism regions in Azerbaijan with tourism regions in Europe;
- study the dynamics and tendencies of the tourism development as a form of foreign trade communication for Azerbaijan;
- proposal for development of Tourism Industry in Azerbaijan

The object of the research is regional tourism as a form of economic activity of a country and its regions.

The subject of the research – the situation, tendencies, problems, and direction of tourism development as a form of economic activity in the regions of Azerbaijan.

Implementation of the main research into the practice will allow increasing the effectiveness of information use in the tourism planning and will promote the establishment of scientifically based national and regional tourism policy. Tourism in regions significantly differs, and conclusions made during the research can be used in organisations and institutions, which are forecasting the development of national tourism.

## HUMAN RESOURCE PRACTICES AND ORGANISATIONAL CULTURE EFFECTS ON ORGANIZATIONAL PERFORMANCE

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### Abstract

**Purpose:** The present study addresses a central research question: Do human resource management practices fit with competitive strategy and organizational culture in the Greek contextual environment? If yes, does this alignment contribute to firm performance? We examined the following HR practices: (1) job security (2) selective hiring, (3) self-managed teams and decentralization of decision making (4) compensation policy, (5) extensive training, and (6) information sharing. We measured culture drawing on the Competing Values Framework

**Design/methodology/approach:** We surveyed managing directors and HR managers in Greece sending structured questionnaires via fax and recorded their perceptions on HR practices and their relation to organizational performance. Survey took place during March-May 2010.

**Findings:** Results provide insights from improving organisational culture in Mediterranean countries. Directions for further research are provided.

**Originality / Value:** This study is uniquely focusing on the combined effect of culture and HR practices on organisational performance. In doing so, it sheds lights on the repercussions of different types of business culture on firm performance, as moderated and expressed by HR practices. This study has both theoretical and practical implications.

Research limitations/implications will be thoroughly discussed in the research paper.

**Keywords:** Human resource practices, organizational performance, organisational culture, Greece.

### Biography

**Dr Barbara Myloni** is a Lecturer at the University of the Aegean, Department of Business Administration, Greece. She has taught in several universities in Greece, while she has been collaborating with the Hellenic Open University for the past 3 years. She holds an MA in International Management and a PhD in International Human Resources Management from Bradford University School of Management, UK.

She has participated in many international research projects with universities worldwide. Her research interests include: International Human Resource Management, Organisational Behaviour. Multinationals and FDI, Strategic Management and Knowledge Management.

**Dr. Ilias P. Vlachos** is currently assistant professor at the Agricultural University of Athens, Greece. He holds a Ph.D. from Cranfield University, UK. His research interests include: business management, supply chain management, human resources management, corporate social responsibility and e-business.

Ilias has 8 years of experience at Agricultural University of Athens, 7 years at Hellenic Open University, Greece, and many years of lecturing at various universities worldwide.

Dr. Vlachos has participated in many competitive Greek and European research projects, succeeding in most of them. He has published more than 70 research papers in peer review journals (including 3\*), books chapters, conference studies etc.

## RETURNS OF THE PRIVATE INVESTMENTS IN RUSSIAN HIGHER EDUCATION

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### Abstract

**Purpose:** The global economic crisis has made topical the question of financial resources structure for higher education (HE). At the present time, Russian HE is highly commercialized, and a half of all resources are private. It testifies that this sphere is poorly financed by the state and HE must be an investment sphere in Russia by law. But now it remains "a black hole". There is no basic model for the economic efficiency valuation and investments diversification in Russian HE. So it is highly important for Russia to study the opportunity of applying Cost Sharing conception, which shows the necessity of advantageous usage of private financial resources for HE more than of state ones (Johnstone, 2001). According to this conception there are possibilities for the cost sharing proportionally to an expected profit from the investments for public or private investor.

The investigation is to value numerically the economics efficiency of private investments in HE and take into account time's factor. The results can be regarded as a theoretical basis for developing and introducing the Cost Sharing Concept in Russia.

**Design/Methodology/Approach:** An additional income from HE is a stimulus for people to do the private investments in human capital (Becker, 1964). Therefore, when the investment effectiveness is valued, it is important that added up income from education (with discounting that reduces the amount of future income at the present time) exceeds essentially the previous investments in HE. The investments in HE are profitable, if Net Present Value (NPV) from educational investments calculated as the sum of discounted Net Cash Flow during all the regarded period, is positive.

The carried out analysis of the effectiveness of private investments in HE is based on the fact that the level of person's income depends directly on an educational level.

To value additional incomes in HE, an average nominal salary in Russia with the coefficient of a salary increase, due to an educational level, is compared to a living wage as a conservative valuation of a potentially possible salary level of those who didn't have higher education.

First, the analysis of differences in a salary level between the people without HE and those with HE, who are specialists in the main branches of industry, was carried out. The results of the analysis demonstrate that there is in spite of essential differences in

different industrial branches a correlation between a salary and person's educational level, is quite permanent on the whole. Now, a salary increase, in accordance with an education level, varies from 118% to 161% in different branches of industry, and an average increase is 32%. This figure was taken for the further valuation of efficiency of individual investments in HE, in the part of income identification of people with higher education. The analysis of effectiveness of the private investments in HE includes 3 stages:

- identification of the additional incomes from HE and their cost valuation with time's factor regarded;
- identification of the explicit and implicit costs for getting HE and their cost valuation;
- comparing the discounting costs and incomes during the same period of time caused by HE.

**Findings and Originality/Value:** The results have demonstrated the efficiency of private investments in HE as an investment into human capital:

- the additional incomes from HE completely covered the total costs for it;
- the discounted payback period in HE does not exceed 7 years and allows to regard this kind of investments as medium-term and low-risky investment projects;
- as in Russia about a quarter of the GNP is produced in the shadow economy, and a significant part of a real salary is not registered officially, the real educational investment efficiency can be much bigger than the received conservative valuations, and payback period can be less;
- as an employee with HE is about 40 years, he (she) will have worked for himself for more than 30 years enjoying the fruits of his studies at university and appropriating a NPV from educational investments.

**Keywords:** Education, costs, salary, investments, payback period, efficiency

## THE 'END OF AN ERA', THE TIME FOR RADICAL CHANGES IN HIGHER EDUCATION

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### Abstract

The current global economic crisis reflects how very frangible, complex and interrelated the world economy currently is affecting also the hospitality industry. Against this background, the authors argue that the higher education objective should be to produce more reflective practitioners who are prepared to cope with an ever demanding industry and external macro changes. The authors argue that the existent hospitality higher education, as we know it, is reaching the 'end of an era' and call for urgently required radical changes in the structure and methodology of the hospitality and tourism curricula. When comparing French and British approaches, Groschl and Barrows (2003) found that education does influence management styles. This is consistent with Wade's (1999) findings that demonstrated that students' attitudes and actions are positively influenced by their learning experience and that the hospitality curriculum can be a driving force for change.

This research examines managers' and educators' attitudes towards the current provision of higher education for hospitality management in Cyprus using a qualitative research approach. The focus is on whether academia perceives that a more liberal Hospitality and Tourism curricula education is meeting the needs created by this changing market. This view is contrasted with the industry perspective investigating whether a vocational-liberal and/or reflective-action approach is favored by practitioners in the industry. The reasons for their stated preferences are also explored.

Within the framework of a qualitative approach, the study is most suited for a case study design as the Cyprus hospitality higher education will be the sample for this research study. As a form of research methodology, case study is an intensive description and analysis of a phenomenon, social unit, or system bounded by time or place (Berg, 2004; 2009; Merriam, 1998). As Merriam (1998) indicates, qualitative case study is an ideal design for understanding and interpreting educational phenomena. A

case study design is employed to gain an in depth understanding of the situation and meaning for those involved (Merriam, 1998).

Higher Education institutions should be aware that several alternative routes could be taken: for example, prepare students to continuously reflect on and appropriately- strategically and tactically- respond to the ever changing demands of the highly volatile, competitive and sophisticated, global tourism industry, rather than to merely meet current demands (Barron, 2006) in an ad hoc manner. The 'end of an era' is a new beginning for the Higher Education.

**Keywords:** Higher education, Hospitality and Tourism curriculum, vocational/liberal, reflective/action

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## CROSS BORDER RETAILING IN THE EU: THE CASE BETWEEN SPAIN AND FRENCH BORDER

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### **Abstract**

The free movement of products, services, people and capital, that is one of the founding principles of the Treaty of Rome in 1957, took a new dimension with the acceptance of the Schengen area by most member countries of the European Union (EU) and Switzerland, between 1985 and 2007, with the suppression of border controls and the facilitation of border crossing for citizens of member states. This facility to cross the borders has not decrease the interest of millions of European citizens for the borderlands. The opportunity to buy differentiated products or cheaper by the still existing differences in taxes among EU countries, these is one of the attractions that explain the mobility across borders for at least 10% of Europeans (Spierings & Vand de Velde, 2008). Thousands of European citizens crossing borders every day, attracted by the opportunity to enjoy more choice of products, higher quality and diversity of shops and malls, as well as the power to combine shopping with leisure and entertainment. In this context, the paper explores the motivations of French cross-border consumers that crossing the Franco-Spanish border by the border point of La Jonquera-El Portus, from surveys conducted in the city of Figueres, the main shopping destination for habitants of Catalonia North –Department of Pyrénées Orientales. The main results show that motivation as best prices on the purchase of tobacco, alcohol, gasoline and shopping in general become the main determinants to cross of French tourists and there are consistent with findings from academic literature on previous work (Timothy & Butler, 1995, Di Matteo & Di Matteo, 1996; Timothy & Tosun, 2003). Also, found significant differences in the purchase of products according to the proximity of shopping centers along the border and the number of buyers decreases as distance increases between home and the border.

## THE RENAISSANCE OF COMMANDARIA, BRAND BUILDING FOR ACHIEVING COMPETITIVE ADVANTAGE

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### **Abstract**

**Purpose** - Commandaria, the oldest wine appellation in the world is a wine region found in Limassol, Cyprus and where the wineries located within produce the Commandaria wine, which is the oldest name for a wine in the world. Even though Commandaria has such a long history, time has affected the product negatively and thus it lost its local but also global fame and recognition. The Renaissance of Commandaria, Brand Building for Achieving Competitive Advantage is a project sponsored by the Cyprus Research Promotion Institute and the purpose of the project is to provide a strategic plan that will improve the brand of Commandaria on the local and then global wine arena.

**Design/methodology/approach** – A variety of methods including secondary and primary research will be used in order to collect the information needed. The secondary research will be completed with the use of several books and articles regarding Commandaria and other sweet wines. With regards to the primary research, the team will focus on interviews with wine experts and Commandaria wine makers, questionnaires and focus groups.

**Findings** – Up to this point, part of both the primary and secondary research has been completed. The secondary research provided the team with an in depth analysis of the product and it helped in understanding better Commandaria; its strengths and weaknesses. The primary research that has been made up to this point, provided information with regards to the wine industry of Cyprus; the opportunities and threats that the environment holds, how is Commandaria perceived from its producers and its potential to develop.

**Research limitations/implications** – This paper, even though it analyses in depth Commandaria as a product and its surrounding factors, a recommendation for future research would be to provide a more detailed research on the terroir sector of the Commandaria region. There is information analyzed and presented in the paper, but there is room for further research that will provide a more detailed analysis of the area and thus identify any special characteristics that the Commandaria region holds and are directly affecting the unique character of this wine.

**Practical implications** – With the finalization and implementation of the research paper, the wine business of Cyprus will have more opportunities to prosper because Commandaria is considered one of the top wines in Cyprus. The fact that it is also produced by indigenous grape varieties is also something positive, since Cyprus as a wine region can provide something different and unique. So these two strengths of Commandaria, the fact that it is a high quality wine and produced by local grape varieties are going to boost sales both locally and globally once the right brand is established and exposed.

**Social implications** – Once the direction is chosen and followed, the research paper will have an impact on the local society on different levels. Firstly it will improve the income of the Commandaria winemakers and offer them the opportunity to develop their winemaking and storing facilities. Moreover, it will create awareness for the locals and make them feel proud for drinking Commandaria and thus develop the wine culture of the island. Lastly, it can be used as the flagship of the Cyprus wine industry that is also at low development levels. Commandaria can make the start towards the development of the Cyprus wine industry since it is a unique and high quality wine that is locally and globally famous and acknowledged by the wine experts.

**Originality/value** – There is a limited number of books and articles written for Commandaria and its potential to develop, whereas this research paper is the first of its kind from the view that it will provide a strategic plan for the renaissance of Commandaria. The paper will be benefited by CWA – Cyprus Winemakers Association and WPC – Wine Products Council (Cyprus), as it will be provided to them for their own use after it is completed.

**Keywords** – Marketing, wine, Commandaria, sweet wine, wine business, Cyprus wine.

## INNOVATION AS AN ECONOMIC GROWTH ACCELERATOR

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### Abstract

**Purpose:** Explains the relation of investments in innovation to GDP growth in the chosen OECD countries.

**Design/Methodology/approach:** Summarizes main findings of the paper on Innovation as an economic growth accelerator. The primary and secondary research has been done in the Czech Republic and Switzerland analyzing various literature and internet sources.

**Findings:** The countries investing the most into R&D as a ratio of their GDP, do have a high GDP per capita.

**Originality/Value:** Provides a view on the relation of investments in innovation to GDP growth.

**Keywords:** Innovation, crisis, GDP, economic growth, R&D, patents

### Introduction

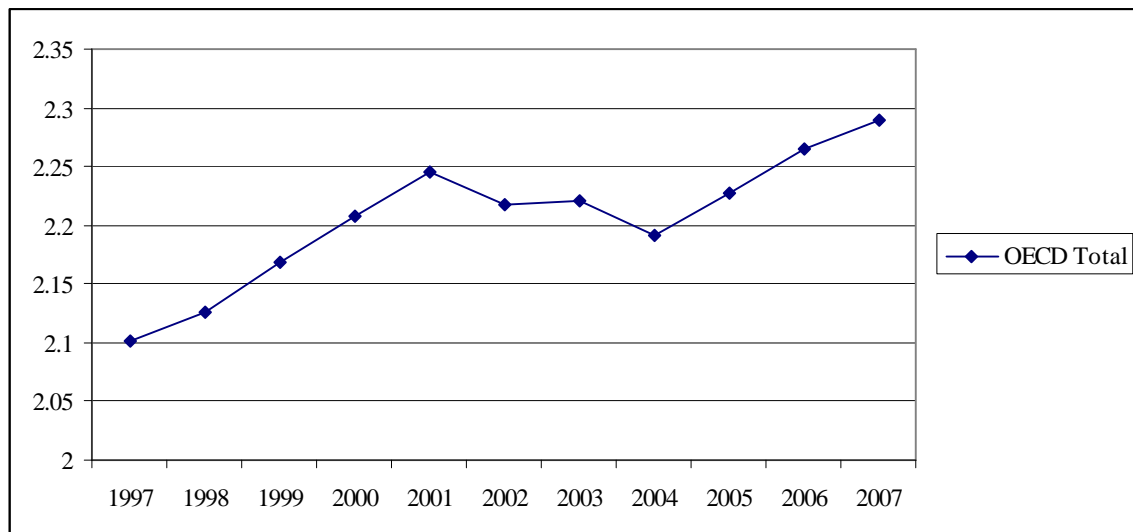
For several decades investment in innovation has been growing in the OECD countries. The OECD countries Research and Development (R&D) investment expenditures doubled in 2006 from the 468 billion USD spent in 1996. The gross domestic product (GDP), as a basic measure of a country's domestic economic output is a product of the size of the labour force and its efficiency. Its result is a combination of two immediate factors: utilisation of labour and productivity of labour. Productivity is the most relevant in the long run and the key to sustainable economic growth, while innovation is the central factor of productivity growth. Assessing the innovative performance of a country, as well as explaining it, goes a long way in understanding the dynamics of its productivity, hence its prospects for long term economic growth (Guellec and Pilat, 2008).

### How to measure innovation

The R&D intensity, the ratio of Gross Domestic Expenditures on Research and Development (GERD) to GDP, is the most commonly used measure of effort in science and technology.

The OECD average ratio of GERD to GDP was 2.29% in 2007, the highest average in the period of data available. This ratio widely varies among the OECD countries. The

United States, Japan, Korea, Austria, Germany and Nordic countries with the exception of Norway have been significantly above the OECD average and their ratio has been growing consistently over the past decade. These are all countries with high GDP per capita, which indicates the beneficial results of the R&D spending on GDP. The R&D intensity of the OECD countries increased significantly in the late 1990s by 4.6% consistently year over year until 2001.



*Chart #1: Evolution of GERD as a % of GDP in all OECD countries*  
*Source: OECD, Main Science and Technology Indicators February 2009.*

In the time period 2001 – 2006 the growth slowed to 2,5 % per annum due to a collapse in venture capital investment, which sparrred the innovative boom to begin with. This decrease in appetite for risk was caused by a series of unexpected events. This included the end of the dot.com era, worldwide terrorist attacks resulting in global conflict and broad material accounting scandals and misstatements. These events caused an increase in the risk premium which resulted in a collapse in investment in innovation. The relevance of private investment is illustrated in the next text.

### **Contribution of public and private sector expenditures on total R&D**

The private enterprise sector provides most of the expenditures in R&D, respectively 63.7% OECD in 2006, with its share constantly increasing over the past two decades. Government expenditures in R&D, on the other hand, have been constantly decreasing from 42% in 1984 to 28.56% in 2006. The share of business R&D expenditure is lower in the EU compared to Japan and the US, although the share of some countries like Ireland, Germany and the Czech Republic is high.

Business R&D is the determinant factor in cross country variations of total R&D spending because government R&D, relative to GDP, is much less variable across countries than business R&D is. However it is noticeable that countries with high government R&D spending are also the ones with high business spending in R&D, notably Nordic countries, the US or Germany. This illustrates the impact of public R&D on business R&D. Public R&D can open new avenues to knowledge, which are often followed by the more applied, business R&D investments. Public R&D also educates researchers (e.g. PhDs) which then establish careers in the business sector.

Innovation not only directly increases economic efficiency, but it also creates investment opportunities which translate into further economic growth via the accumulation of capital. Innovation is of particular interest to government as it is seen as an area where policy can have a significant impact. The returns from investment in new knowledge can often be appropriated only partly by the inventing firm, as competitors can take inspiration from the new technology and create their own version. This competition will reduce the market power of the inventor, hence the margin. Lower returns for inventors means a tendency to invest less in R&D. Thus the importance of governmental policies to provide monetary incentives such as subsidies or tax relief, but also to provide adequate institutional conditions, which will give business a sufficient return on investment and adequate incentives to invest. That includes industrial property rights, competition policy, regulation, etc (Guellec and Pilat, 2008).

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## DIFFERENCES IN ATTITUDES TOWARDS CORPORATE SOCIAL RESPONSIBILITY BETWEEN LITHUANIAN AND SWEDISH CONSUMERS

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### Abstract

**Purpose:** To identify cross-cultural differences in attitudes towards Corporate Social Responsibility (CSR) between Lithuanian and Swedish consumers.

**Design/methodology/approach:** 176 Lithuanian and 153 Swedish business students from six universities were polled using Aupperle (1985) measure of CSR orientation according to Carroll (1991) CSR pyramid; additional questions measured presumptive price premiums for products of companies holding different CSR orientations.

**Findings:** Lithuanians are more economically and legally oriented than Swedes, whereas Swedes demonstrate stronger ethical and philanthropic CSR orientation. Consumers allocate low price premiums for products produced by economical and legal CSR orientation companies; higher possible price premiums were allocated for ethically and philanthropically oriented companies. In the latter case Swedish consumers are more likely to pay measurable price premium.

**Originality/value:** The study provides empirical evidence of cross-cultural differences in consumer attitudes towards CSR for particular countries – Lithuania and Sweden; CSR orientation effect is tested against price premium.

**Research limitations/implications:** The sample consisted of business students only. However, gender, age and working position characteristics were well comparable between samples.

**Practical implications:** CSR adaptation guidelines for Lithuanian market are provided. Results demonstrate that only higher levels of CSR result in price premiums, thus companies that aim to gain financial value of CSR should maintain ethical and philanthropic CSR.

**Social implications:** Results prove that higher levels of CSR accumulate financial gains, therefore business should be motivated to hold strong ethical and philanthropic CSR.

**Keywords:** Cross-cultural differences, Corporate Social Responsibility (CSR), CSR Orientation.

## Biography

**Dr. Indre Pikturniene** is a lecturer of Marketing and Consumer behaviour at Vilnius University, Faculty of Economics. She is an editor of international journal „Organizations and Markets in Emerging Economies“.

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## SOURCES AND LEVELS OF SUPPORT FOR ENTREPRENEURIAL PERFORMANCE IN NEW VENTURES: SOME EMPIRICAL EVIDENCE

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### Abstract

**Purpose:** The purpose of this paper is to: (1) examine the extent to which governmental public policies may impact on successful entrepreneurial new ventures; (2) analyze the extent to which university and research centers may impact on successful entrepreneurial new ventures; (3) analyze the extent to which psychological factors may impact on successful entrepreneurial new ventures; (4) examine the extent to which financial support may impact on successful entrepreneurial new ventures; (5) examine the extent to which networks and previous working experiences may impact on successful entrepreneurial new ventures;

**Design/methodology/approach:** The present study employs a survey questionnaire approach which was applied to a sample of 73 Portuguese entrepreneurs. This approach has, however, been complemented by qualitative data to develop an understanding of the detailed determinants of entrepreneurial performance. In terms of unit of analysis it was decided to include not only firms recently created but also those firms which were formed in the last 4-5 years, assuming that these firms have already rise above the “dead valley”.

**Findings:** When questioned about how respondents achieved the condition of an entrepreneur, 82.5 per cent of the respondents acknowledged that they created their own business from the scratch, nearly 11 per cent received their business from family (heritage), and 3.5 per cent bought an existent firm. When questioned about their previous activity before they start their own business, nearly 38.6 per cent of the respondents indicated that they worked previously in a small medium company while 21.1 per cent worked in a large company and 14 per cent worked as a free lance. Only 14 per cent of the respondents indicated that they have finished recently their studies just before starting the new business. The type of work performed before starting a new business was mainly related with technical related activities (41.7 per cent) followed by commercial activities (27.1 per cent). Concerning the sources and levels of support for entrepreneurial performance, the results of the study confirmed that: Networks and Previous Knowledge evidenced a strongly and positively impact on Entrepreneurial Performance. Similarly, Product and Market Knowledge and Personal

characteristics also presented a strong and positively impact on Entrepreneurial Performance. The same result was not found to Family and friends support and public programmes and qualifications.

**Practical implications:** The findings from the present study provide valuable insights for policy makers, researchers and graduate entrepreneurs. Governments should provide the adequate policies and incentives for an entrepreneurial culture and mainly reduce bureaucracy burden on new ventures. Stakeholders could use this study to make better choices in relation to the major drivers that determines entrepreneurial performance.

**Originality/value:** This study provides an empirically rigorous insight into the main sources and levels of support for entrepreneurial performance in new ventures.

**Keywords:** Public policies; Networks and previous working experiences; university and research centers; financial support Psychological factors.

## THE ROLE OF TRUST AND COMMITMENT IN STATE/NON-PROFIT SECTOR RELATIONS: A MULTIPLE CASE STUDY APPROACH

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### Abstract

**Purpose:** The purpose of the present study is to apply the framework of relationship marketing to analyse the relationship between Non-profit Organisations (NPOs) and Public Sector donors. While there is an emerging set of empirical studies on Relationship marketing in the non-profit and public sectors, the literature in this realm is generally not as well consolidated as it is in the for profit sector. Therefore, the development of strategies to attract resources and the establishment and maintenance of quality relationships with donors assumes crucial importance within the context of the non-profit sector.

**Design / methodology / approach:** Drawing on the relationship marketing literature, the study adopts a multiple case study research methodology in which key dimensions of the relationship between public donors and non-profit organisations are conceptualised and empirically tested.

**Findings:** This study demonstrates that State/Non-profit funding relations varies according to the type of public organisation (Central / Local Government), therefore, suggesting the existence of different patterns of state/non-profit relationships. The study proposes that additional dimensions need to be considered in the commitment-trust theory of relationship marketing to fully depict public funders/NPOs relations.

**Practical implications:** The findings of the present study provide valuable insights on key aspects concerning state/non-profit funding relations, contributing to enhance non-profit awareness of the factors that lead to positive funding decisions. Thus, the study provides direction to assist non-profit managers in conceiving strategies to develop and maintain quality relationships with their public funders. Furthermore, the study can also be useful to public policy makers in the design of more adequate policies to foster state/non-profit sector relationships.

**Originally/Value:** This research adds to existing knowledge by extending the relationship marketing literature to analyse state/NPO funding relations. Considering that definitions of marketing relationship commonly emphasise its potential to

establish, develop and maintain successful relational exchanges (Berry, 1983, Morgan and Hunt, 1994), a conceptual model addressing the role of trust and commitment in NPO/public funders relationships, its antecedents and related implications is developed.

**Keywords:** Relationship marketing, Relationship quality, Trust, Commitment, State/Non-profit Sector relations

## PROMOTING WINE ON INTERNET: AN EXPLORATORY STUDY OF THE PORTUGUESE WINE BLOG COMMUNITY

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### Abstract

**Purpose:** This study focuses on the content of Portuguese wine blogs and addresses two main questions: (i) which content and design elements of Portuguese wine blog community have more impact on the promotion of wine; (ii) how can we assess and improve the content and design quality of wine weblogs.

**Design/methodology/approach:** We survey the Portuguese wine bloggers web pages using content analysis to enhance the knowledge of their practices and assess the main features (marketing, accessibility, and presentation) used to promote wine.

**Findings:** The Portuguese wine blog community is, with few exceptions, non-professional (“amateur”). In general, they tend to be mono thematic and oriented to taste and rating wines. Has no analytic support exists to assess wine blogs, we propose a framework inspired on web sites analysis and information quality of blogs. Blog success factors are discussed in order to improve wine blogs and give wine firms the opportunity to promote their wines at almost no cost.

**Practical implications:** This research can be useful to managers of wine firms for several reasons: (i) wine blogs can be a rich source of information to better understand consumers and opinion leaders; (ii) wine blogs provide a unique marketing tool to promote wine through Internet; (iii) WOM is an increasingly important technique to influence the conduct of consumer-to-consumer communications; (iv) strategic implications of the existence of different types of both virtual communities and community participation must be consider. The interest of the research could be extended to the wine blog community as some of the implications could help to improve their blogs.

**Keywords:** blogs; content analysis; e-business; web-marketing; wine.

### Biography

José de Freitas Santos is Full Professor of International Business. He obtained is PhD in 1997 from the University of Minho, Portugal. He is research member of NIPE (Research Center in Economic Policies) of University of Minho. His research interests include internationalisation of Portuguese SME's, counterfeiting, wine business and the role of region-of-origin in niche markets. Besides ppresentations on these topics at

various national and international conferences his articles has been published in the Revue d'Economie Régionale et Urbaine, Global Economics and Management Review, European Review of Economics and Finance, Journal of Euromarketing and EuroMed Journal of Business.

**GLOBALIZATION AND THE WINE MARKET. NEW COMPETITIVE SCENE  
AND EMERGING PRODUCERS. THE SMALL ALBANIAN CONTEXT.  
DEVELOPMENTS AND PROSPECTS.**

**Scalera, Francesco; Elezi, Dashamir**

**Abstract**

The global wine market has undergone significant changes in the last three decades, because of increased international trade that has changed production in terms of quantity, quality expectations from consumers and market structure.

In particular, at an international level, as opposed to traditional producers in the EU (Italy and France in the lead), new export-oriented competitors have emerged, such as the U.S.A, Australia, Argentina, Chile, New Zealand and South Africa, representing "The New World of wine", which, in fact, have redesigned a new competitive scene, within which, the parties involved had to reformulate strategies and behaviours to keep a satisfactory level of competitiveness.

However, it can be realized that this scenario can not be limited to the above-mentioned dualism, but it turns out to be far more complex and rich, owing to two main factors; on one side, the heterogeneity of a group of new wine countries as well as the fragmentation of production (with the appearance on the market of new economic contexts, particularly in the Balkans, such as Albania, Serbia, Romania, Bulgaria) and, on the other one, the emergence of new types of businesses at all levels of the supply chain (from production, to intermediate distribution, up to retail).

Thus, in order to place the analysis of the competitive scene within a general market framework, the present paper aims, first, at highlighting an overview of such factors as the evolution of production, both on a quantity and quality point of view, the wine supply system, consumption and trade worldwide (with particular reference to the Italian market) and, subsequently, at assessing whether the evolution of the competitive scene is currently influencing producers' strategies, especially in the light of the international development of new small-scale producers such as Albania.

In particular, in collaboration with the Albanian Sommeliers Association, through analysing the data available on domestic wine production, on the kind of product made as well as on the main markets in which it is placed (with particular reference to the U.S.A.), the present work is meant to explore such an interesting field, in order to identify the types of wines to be produced in the future, the right kind of corporate organization to be chosen, and the most appropriate marketing strategies to be adopted by Albanian producers to enhance the local product at an international level.

**Keywords:** Globalization, International Business, Enterprise, Wine Market, Albanian Production, Strategies.



## **CYPRUS ACADEMY OF PUBLIC ADMINISTRATION AND MANAGEMENT DEVELOPMENT**

**Shiakides, Sotos; the CAPA Team**

### **Abstract**

The Cyprus Academy of Public Administration (CAPA) was established in 1991 on the basis of Council of Ministers Decision. Its mission is to contribute to the development of the management capacity and the modernization of the Cyprus public service through the formulation and implementation of an appropriate learning policy.

CAPA's vision is to provide public service Organizations the learning and support that will strengthen and enable them to operate successfully in a rapidly changing and competitive local, EU, and global environment and offer high quality, citizen-centred services.

The following are CAPA's main strategic objectives deriving from its mission and vision:

- To strengthen the learning capacity of public service Organizations
- To promote management and organisational development.
- To produce and disseminate knowledge useful to public service Organizations.
- To facilitate wider changes in the public service.

Types of CAPA activities serving the achievement of its strategic goals, mission and vision include the design and organization of training programmes and other learning activities both in the class and at the work place, the development of strategic initiatives, the provision of consultancy services and the conduct of applied research.

During this presentation we will discuss some of the recent initiatives and projects which CAPA manages, with a focus on management development.

## SYSTEMATIC REVIEW OF LITERATURE RELATED TO CORPORATE CULTURAL IMPACT THROUGH LEADERSHIP

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### Abstract

**Purpose:** This review attempts to indicate through relevant literature the key elements, leadership qualities, values and skills, which effectively can monitor effectively, the cultural evolution of the human resource of an organization (both public and private sector). I try to also define how literature describes the measuring methodologies of those Leadership characteristics, both in terms of theoretical approach as well as their application in Industrial management.

In this review I will try to analyze the existing literature from the point of view of “Who the effective leader is” and find out how this “effective leader” has been developed in the last one hundred years and how it has been measured. I aim to determine how literature describes the impact of the “Effective leaders” on the cultural development in each period, in an effort to enable me in to revealing the “Effective on Culture Leader to come”.

**Approach:** Through a narrative description of what the effective leader was in every decade I tried to clarify, to which extent the socioeconomic and political environment influenced what effective leadership was at each time. In this way I wanted to identify also the “How” and which Socioeconomic and political alteration influence Leadership.

After discovering roughly what essence was common in certain elements of leadership and their chronological impact on managers, I revealed the methodologies of measuring the impact of leadership on culture. I argued studies regarding cultural audits extracting not only how to measure leadership but also what audits were looking for at the time.

In order to define an evolutionary pattern of leadership in years, I have tried to compare approaches and theories from literature. In an effort to succeed matching such amorphous and uninformed approaches, I tried to reduce them in a common ground of comparison. I have created a categorization of the elements that they compose a leader and I have funneled all significant findings on each element in to a common category turning them in to measurable groups of leadership characteristics.

I have compared my categorized findings to researches of key authors in an effort to verify my method of measuring leadership characteristics by grouping them (I have included only one for practical purposes). Since the numerical verification matched the

narrative approach of the chronological evolution of leadership I was able to extract conclusions that will allow me to use them in my final thesis.

**Findings:** Through this process I have concluded that effective leadership derives from the socioeconomic impact on enterprises. The leader who is to be considered a good leader is the manager who can update both his business outlook but as well as his knowledge to what the broader Enterprise environment requires at the time.

Despite the “heroic texture” of what is usually expected in a good leader, effective leadership cannot be considered as a result of a particular type of Leader’s personality.

A particular personality type, that at the time might seem to be the ideal guaranty for an effective leader in another era might not help at all in this direction; and since nowadays the socioeconomic scenery changes so rapidly the “Ideal Leader” cannot be a result of a personality but of a concept.

The leader now, according to my findings, must be able to easily accept that his professional principles are subject to the “Business environmental changes” and that changes are fast, unpredictable and they have a violent impact in business.

This leader may have better chances than those with concrete ideology. This is a statement that contradicts one of the major values, of what traditionally was considered to be a fundamental virtue of a true leader in the past.

**Limitations:** Due to a logarithmic increase of available literature in time, the overview of articles on leadership in the past decades is not as contemporary as it should have been. The non-uniformity in the parameters and terminology has resorted in to comparison of non similar and immeasurable characteristics consisting it subjective.

**Quality/Values:** Despite the fact that there is a lot of literature arguing leadership or Culture, it is very rare and incomplete what’s available in to dealing with both of them together. The Impact of leadership on culture consists probably the essence of leadership it self and this paper analyses it and its performance for the past 100 years.

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## MANAGEMENT AND LEADERSHIP IN THE PUBLIC AND STATE ADMINISTRATION SECTOR

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### Abstract

**Purpose:** Deepening and developing an earlier research, this paper aims to explore the practical applicability of certain styles of management in public administration, with particular reference to the governments / central, to see which method of management and which leadership style is the best for this particular sector.

**Design/methodology/approach:** In the first part of the paper the approach is theoretical, since it analyzes the latest trends in management in public administration, not only in Italy but also by a comparison at the European level, and from here the research verifies the most successful managerial behaviors, using benchmarking; this means an application of the deductive method. In the second part is the inductive method used: from the actual verification, in everyday experience in a public administration, of different management styles, more or less effective, the paper goes back to the possible theories of reference. The conclusions compare the results of both analysis and trace information for the improvement of human resource management in public administration.

**Findings:** The research demonstrates how not only TQM and self-assessment, but also team involvement in institutional mission are basic. The economic benefits are important but not sufficient to generate motivation: this is based on sharing ethics and on empathy and communication skills by the manager / leader. The institutional approach must be oriented towards both the interior and the exterior customer, and this must be not unbalanced: it appears to be essential.

**Originality/value:** The principal value of this research consists in the comparison between theory and practice. In fact, it provides practical solutions for a sector largely unexplored in this specific area.

**Keywords:** leadership, management, public administration, work organization, experience

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## AN INVESTIGATION INTO THE LIVED EXPERIENCE OF COMPETENCIES IN HUMAN RESOURCE DEVELOPMENT IN THE UNITED KINGDOM – A HISTORICAL AND CONTEMPORARY RECONTEXTUALISATION.

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### Abstract

**Purpose:** The paper aims to map and evaluate the use of competences as a commonly recurring aspect of the United Kingdom human resource development environment. In particular, it aims to surface the 'lived experience' dimensions of competency initiatives and their consequences.

**Design/methodology/approach:** The paper undertakes a review of the extant literature on competencies in order to identify predominant patterns and themes. This produces research questions which are investigated through an ethnographic research methodology focusing on the case of a competencies programme carried out over a two-year period in a utilities company located in the north of England. One of the authors undertook the role of assessor and deeply embedded participant observer in the study.

**Findings:** The work identifies the ways in which the competency framework impacted on the lives, beliefs and identities of the employees and, reflexively, the researcher undertaking the training. The analysis of the ethnographic data resulted in the emergence of a number of themes that point at the 'lived experience' of competency programmes and signals contrasts and juxtapositions with conventional and normative understandings of competency initiatives.

**Research limitations/implications:** The research examined the literature thoroughly however the emergent questions were examined in a single company and case and therefore the usual caution must be exercised in relation to the claims of generalisability of the study. Further studies are required to explore the replication of the experiences and observations.

**Practical implications:** The study provides valuable data and insights for the future design of competency interventions in order to avoid, where possible, the difficult aspects of 'lived experience' that might be felt by participants.

**Originality/value:** Using a critical approach, the paper provides a valuable revisiting of the conventional, normative and mainstream understandings of competencies. The application of a participant-led 'lived experience' frame of reference facilitates fresh and novel insights to understandings of competencies in the United Kingdom setting.

## SUSTAINABLE FOOD PRODUCTION AND SOCIAL RESPONSIBILITY

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### **Abstract**

The agricultural sector is one of the most important sectors concerning ecological exposure – because of fertilizers, transportations, land use, deforestation, declining biodiversity and water use. But regarding the food supply chain there are not only ecological aspects but social and economic aspects as well to shape it sustainable. The study will explore potentials and risks of proactive and regulated measures along the food supply chain to promote sustainability. The study analyzes unattended perspectives of sustainability along the food supply chain: farmer, elaborator, refiner, retailer and consumer. The focus will be on the consumer's responsibility. Does every agricultural and industrial partner work/elaborate/grow etc. and is every interface as efficient as possible as the industry may suggest? Is the remaining efficiency potential on behalf of the consumer? How can the consumer be enabled to assume this responsibility? Education is one of the keys to help the consumer demand for (pull) sustainable food and sustainably produced food. On the other hand companies are in charge of supplying (push) information. Finally political interventions can create standards to ensure sustainable behavior. But it has to appreciate companies' own initiatives toward sustainability. The study provides a framework integrating the concepts of Corporate Social Responsibility (CSR), Supply Chain Management (SCM) and Education. It calls for differentiating the question of responsibility and for appreciation of efforts promoting sustainability.

**Keywords:** Sustainability, Supply Chain, Food Industry, Education, Consumer behaviour

### **Introduction**

Sustainable food production - according to the triple bottom line of the Sustainability (Dt. Bundestag 1998) refers not only to the ecological dimension. Rather there is a need to integrate the economic and the social dimension to come up to the idea of Sustainability. Only this perspective „meets the needs of the present without compromising the ability of future generations to meet their own needs“ (Brundtland's report 1987) and without disadvantaging other groups (intragenerational equity). In the current discourse to Sustainability high value is set on Sustainable Development at international level. But, this can often be reached – in spite of all consultations and deliberations – only by single sustainable processes. The employment of „social and



ecological consistent technologies and production procedures“ (Altner 1999) leads together with „international politics of consultation about the criteria of Sustainability as precondition of concerted action between states and cultures“ (ibid.) to Sustainable Development. The presented Study examines (unattended) sustainable perspectives of the food production along the value chain to emphasize single exercised aspects as well as to uncover other needs and potentials.

### **Supply Chain of Food production**

Aliments are composed of foods, beverages and indulgences as well as additives which serve the nutrition. Aliments can be roughly divided regarding their origin in animal and vegetable foods and drinks (including drinking waters), further in synthetically produced additives like sweeteners and mineral additives like salt. For the consideration of the food production it is indicated to divide into the two main groups as follows:

- Food of animal origin consists in meat products and sausages as well as fish, but also eggs, milk products, honey and animal fat.
- Vegetable Food includes fruits and vegetables (incl. legumes, potatoes and mushrooms), grain products as well as vegetable fat.
- There is a huge number of foodstuffs which represent a mixture of both groups. As there are among others milk chocolate and wine gum with gelatin. These products are assigned to the categories mainly of animal origin or mainly of vegetable origin.

Animal and vegetable foods come from the agricultural sector. Figure 1 shows the supply chain starting with the agrarian sector, over the refining and retailing sector to end up with the final customer. Besides, products of the plant cultivation serve at the same time as seeds within the same supply chain as well as feed for livestock. Other links pass by the use of animal (dung or horn meal) and vegetable (legumes) dome products for the fertilization of soil for plant cultivation. Further there exist exchange processes in the refining level between the vegetable ones and the animal supply chain for the production of processed food as buttered vegetables and sausages/meat products.

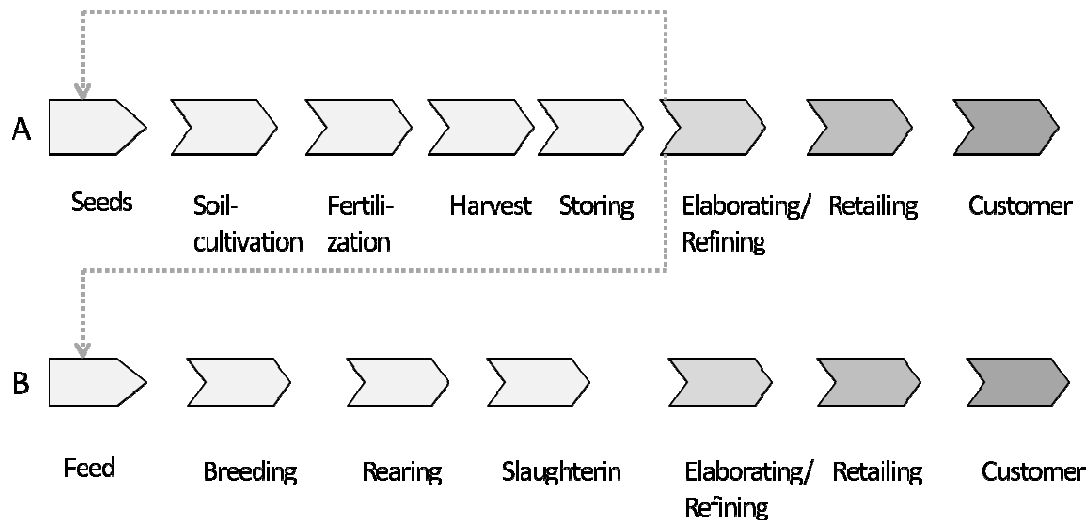


Figure 1: Supply Chains of vegetable (A) and animal (B) Foods with selected links

## Sustainable Perspectives

While considering aspects of Sustainability along the supply chain of food one distinguishes in the ecological, social and economic dimension:

- The ecological dimension aims to protect and to maintain the natural environment. Including the preservation of biodiversity of flora and fauna, the climate protection and the landscape conservation. In the ecological dimension three leading strategies of the sustainable development can decisively be localized: (resource) efficiency, consistency and sufficiency.
- The social dimension refers to the society: on the today's societies as well as on the future ones. The fair distribution of the resource use is aimed.
- The economic dimension stands for the long-term preservation of resources, that means living on the "interests" and not "consuming" the resources.

The ecological dimension is already clearly operationalized. Above all, the research to LCAs, the Carbon Footprint, the ECO Management and the operational environmental economics as well as the presence of environmental topics in the public perception allowed the development of instruments for environmental relief, for environment protection and for environmental projects' support. The agrarian sector also profits from this research as the instruments of material and energy flow analyzes, the Life Cycle Costing, ABC Analyze etc. can be transferred. The ecological points of view on the food production concern above all the delivered amount and the composition of fertilizers, the transport, the storage, the health harmlessness of food, their retraceability as well as aspects of regionality and seasonality.

The social dimension still lacks unequivocal demarcations. Thus there is a huge number of instruments which are tied together with it. However, it is difficult to put

out an unequivocal, comprehensive strategy as it is the case in the ecological dimension. Often linked catchwords are a health and justice concerning the terms of employment, fair remuneration, respect towards the suppliers and customers as well as the wide field of education/training. Not only the jobs within the Supply Chain need an education. Also the education of the customer with regard to food competence is part of the Social Responsibility, the CSR, to meet social malnutrition and undernourishment.

The economic dimension founds itself on the one hand on a "healthy" economic foundation of the single enterprises as well as of the whole branch. On the other side economic sustainability also means Social Responsibility to contribute to social welfare by transparency participation and ethical investment. Mainly in the agrarian sector the economic success depends on sales. Agricultural products mostly represent a rather inelastic supply with a high dependence on environmental factors like weather and climate. The demand for staples is in general seen as rather inelastic, too. Indeed, due to globalisation there are sufficient substitutes, so that the single local farmer is economically concerned if the teamwork with the refiner, the trader and the customer does not run (anymore). The dietary habits of the consumers play a decisive role concerning the pull-principle in the Supply Chain. It can be influenced by education (and need creation) – as well as by enterprise marketing strategies.

### **The role of education**

To ensure sustainable food production economy, science and population have to interoperate. To enable the population for this job, the fourth dimension of the education is essential. Figure 2 shows this addition graphically in the form of the triple bottom line-model. Education encloses on the one hand a clear supply of information on the part of the enterprises (Push principle) by sustainability reports, consumer information, Stakeholder dialogues. On the other hand, it also requires the change of attitudes to create awareness and to cause behavioral change. Thus a demand for sustainable products or for products that are sustainably produced (Pull principle) can be motivated.

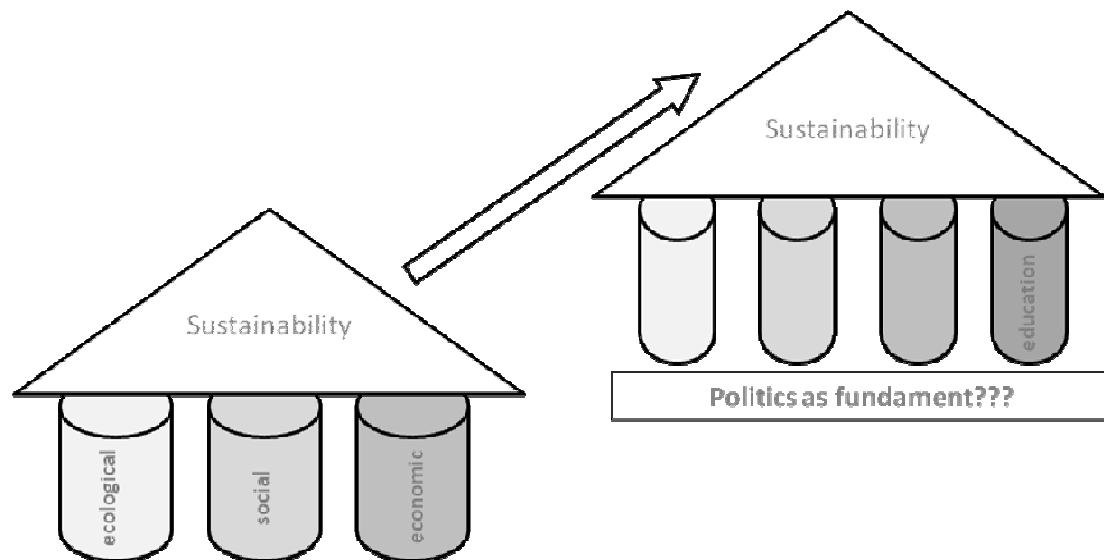


Figure 2: Additional fourth dimension "education" in the triple bottom line-model

The importance of the customer in the Supply Chain which is also expressed by the fourth dimension of education releases by no means the enterprises along the Supply Chain from their responsibility. It seems to be a trend to see the responsibility for further sustainability potentials (nearly exclusively) with the end user. Thus some cooperation partners of the German PCF project (PCF 2010) refer to the consumer and his shopping habits to lower the Carbon Footprint. Thus Rewe sees the shopping journey of the consumer with 15% of the Carbon Emissions as one of four main causes for Best Alliance strawberries. Frosta ascribes 25% of the Carbon Emissions to the consumption process of their frozen tagliatelle wild salmon which is caused above all by freezing, preparation, driving/shopping and cleaning. Tengelmann determined for their Naturkind Organic free-range eggs a causing potential of 21% of the Carbon Emissions by the utilization phase, in particular by driving/shopping and way of preparation. Tchibo sees a high saving potential by the preparation of the Private Coffee Rarity Machare in the end user, too. The enterprises can meet the consumer's causing load not only by the supply of recommendations of preparation, but, for example, also by better accessibility of shopping sites. The latter is valid above all for trader like Rewe and Tengelmann.

To avoid overtaxing the consumer, it is insufficient to provide the necessary information and recommendations. The fourth dimension of education also concerns the mediation of competence, abilities and skills. Only so the consumer can demand for sustainably produced food. This competence is among others given at school. Relating to food competences mean preparing and arranging menus, planning (purchasing, storing, processing, consuming) as well as aspects of seasonality and regionality of food. Other state interventions are regulations on declaration (e.g., Carbon Emissions or food "traffic light"), on permissible additives, on admissibility of advertising

messages etc. Hence, some references also perform the political-institutional as the fourth dimension (ITAS 1999). Thus the consumer can be relatively sure that the demanded products meet the expected quality level. And at last the consumer must want to demand for sustainably produced food. Here the mediation of attitudes and intentions begins. Changing attitudes and building intentions is reached by cognitive information, emotional connections, social norms and competence.

### **Cooperation and interaction of Business, Research, People and Politics**

Enabling the consumer for a sustainable consumption, strengthening his consumer power, the adjustment of the enterprise operations toward sustainable satisfaction of the consumer's and the society's need as well as the selfobligation of the enterprises toward sustainable processes along the whole Supply Chain cause finally a sustainable food production. To what extent the politics should steering intervene, is a political question which cannot simply be answered objectively. A political protection of the rural space by for example subsidies in the agrarian sector and requirements in the land utilisation are appropriated concerning the landscape conservation, the cultural preservation and the biodiversity. Standards like the IFS to ensure the food security of store brand products (HDE 2010) or the Iodification of table salt serve the structural prevention, while they facilitate desired behaviour like supplying or demanding sustainable food to the members of the supply chain . These interventions intervene across the supply chain. However, information, counselling, appeals, education measures and recommendations place on the behavioral preventive side of sustainable food production. They enable the single decision-makers within the supply chain toward desired behaviour. Figure 3 shows the difference of both intervention kinds graphically.

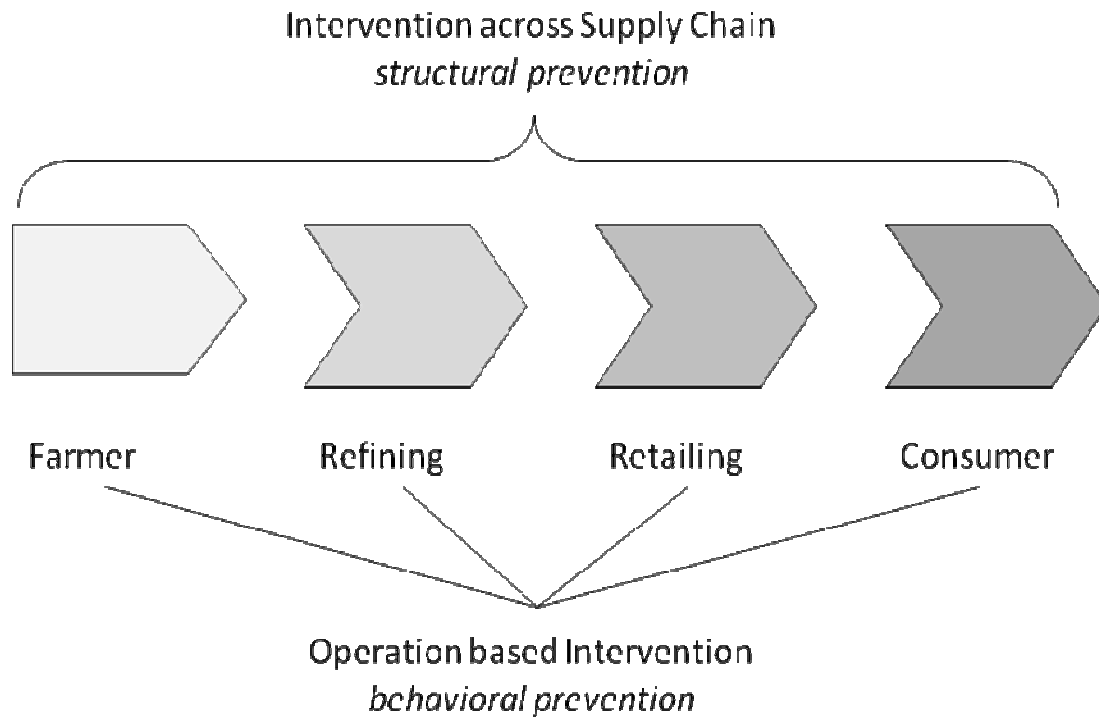


Figure 3: Intervention across Supply Chain and operation based intervention along a supply chain

However, one-sided stressing and preferring of state interventions doesn't come up to reality. Rather enterprises see their social responsibility in the area of the sustainability and become proactive. This initiative comes to the fore in charity acts like the support of the local food pantry to meet the distributive injustice. Furthermore enterprises engage themselves in the area of the Labelling (among others PCF 2010) and intern minimal standards which go beyond the legal default. For example, the Hip Organic Quality which certifies the absence of contaminants of baby food (Hip in 2010) beyond the EC-organic-seal. Furthermore the enterprises are aware of their social responsibility in the field of mediation of food competence and so they support scientific research as well as social projects. This cooperation is known as Public Private Partnership. Examples for that are the elementary school project „Edeka's pause star“ and the development of the practical oriented guide „Step by Step I'm getting fit“ for elementary schools and day cares in cooperation of the Technical University of Dortmund and Kraft Foods.

The science takes at this a mediator's role between economy and politics as well as between population and politics. Objective recommendations beyond political currents result from qualitative and quantitative research as well as feasibility studies. State interventions must be quality proved to be implemented successfully and wisely. The state in turn supports the science in its independent research. Science for example can grasp and evaluate signals from the economy, so that derived recommendations beyond lobbyism can be given. On the other hand, population studies can prove, to

what extent subjective perceptions can be found in the population and how they can be met adequately. Whether the recommendations actually will be transferred into reality, often depends on the respective government's political aims. Thus the sustainable food production can be efficient concerning consumption of resources and emissions as well as consistent concerning technologies and material input. The strategy of sufficiency is met above all by a sustainable food production when the share of animal food decreases and the share of vegetable food is raised, particularly as then other efficiency and consistency potentials can be tapped. Though this recommendation is publicized up to now (among others DGE 2010); indeed, handing on controlling instruments are missed like a raised tax on the production of animal products and/or a subsidy on the consumption of vegetable products. The FAO recommends, for example, the introduction of market-based instruments like taxes and fees beside improved technologies, innovations and competence strengthening (FAO 2009, p. 94, 99). Before the introduction of such measures the possible results have to be balanced politically. As there are, for example, the displacement of the refining abroad. Here the science as well as the stakeholder dialogue with the economy can be helpful.

## Biography

Prof. Dr. Johanna Teliëps studied Food Economics (MSc) at the Justus Liebig University in Giessen, Germany. She completed her doctoral studies at the Technical University in Dortmund, Germany. She does research in attitudes toward Sustainability and Sustainable Corporate Governance.

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## COMPARATIVE EVALUATION OF ALTERNATIVE SERVICE QUALITY METRICS IN BANKING

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### Abstract

**Purpose:** The purpose of this study is to comparatively evaluate alternative service quality measures, notably SERVQUAL (Parasuraman et al., 1988), BSQ (Bahia and Nantel; 2000), PAKSERV (Raajpoot, 2004) and BANQUAL-R (Tsoukatos and Mastrogianni, 2010), that have been reportedly used in banking. Special focus is given on face-to-face banking. The evaluation includes: a) the reliability and validity of the measures under examination and b) will be extended to cover the entire path service quality → customer satisfaction → customer loyalty.

**Design/methodology/approach:** This study draws evidence from the Greek banking industry, through a cross-sectional survey, to empirically evaluate alternative banking-specific service performance metrics both against each other and against the generic SERVQUAL (Parasuraman et al., 1988) metric via a combined statistical analyses approach, including Reliability Analysis, Confirmatory Factor Analysis and Structural Equations Modelling.

**Findings:** **The study reports findings on: a) the dimensionality, battery of items, validity and reliability of SQ measures under evaluation and b) on alternative measures' fit into SEM models of linkages between SQ dimensions, customer satisfaction and loyalty.**

**Research implications:** The academic debate on setting-specific against generic quality metrics is quite far from being concluded. Any contribution towards better understanding service quality measurement dynamics across countries, industries and cultures is certainly an asset. This study addresses a significant gap in the literature regarding the comparative evaluation of alternative SQ metrics in banking.

**Practical implications:** The better banks are equipped to assess their service performance the greater their ability to monitor the effectiveness of their quality strategies and assess their impact on their corporate quality image and customers' behaviour. This study provides a framework for comparatively assessing alternative service quality metrics that will be considerably useful for service industries in general and banking in particular.

**Originality/value:** Few would dispute that, in view of the global financial market conditions, customer loyalty and retention is crucial for banks competing in

unregulated and volatile markets. This refers to the prevailing idea, in the literature, that the path leading to customer loyalty which, in turn, is tied to economic performance starts from service excellence/superiority and passes through customer satisfaction (Cronin and Taylor, 1992; Tsoukatos and Rand, 2006). Banks have to keep on track with customers' requirements and to do so they need to monitor customers' service expectations and performance perceptions and how these affect their attitudes. Moreover, banks need to be fast in detecting service delivery flaws and adapting their performance accordingly. Yet, very little is known, up to the present time, on the relative weaknesses/merits of alternative service quality measures being used in banking. In this respect, the value of the present study is expected to be significant. As far as the author is concerned no such study is previously reported in the literature.

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## EUROPEAN UNION TEXTILE AND APPAREL SECTOR REACTION TO GLOBAL EVENTS

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### Abstract

**Purpose:** The main features of the modern business environment are globalization and regionalization, international interdependence and institutionalization, uncertainty and instability. Events in the supranational environment form the conditions that provoke reactions at regional and/or national level. Therefore, the main purpose of the article is to demonstrate European Union (EU) textile and apparel sector reactions to global events.

**Design/methodology/approach:** Archival data analysis is used to demonstrate the EU textile and apparel sector reaction to world events. The analysis is carried out by using scheme of economical and non-economical factors which is proposed by the author. Statistical 1999 – 2007 foreign trade data are analyzed in parallel with the information obtained from other secondary sources.

**Findings:** Textile and apparel sector can be described as the first sector which started to operate globally; one of the most globalized and geographically expanded sectors in the world; one of the most vulnerable sectors because of its social importance; excellent example of the problems facing today's global economy, in particular, such as trade tensions between the developed and developing countries; With the high competitive intensity and the high political sensitivity, which promotes governmental interventions; (Dicken, 2004; Adhikari and Yamamoto, 2007; Seyoum, 2007). It is obvious that this sector is dramatically affected by the changes in global business environment.

Analysis of business environment changes reveals essential nowadays business environment distinctive characteristics such as new business solutions because of the constantly evolving technology; affect of supranational and non-governmental institutions; and international interdependence.

Although these changes are self-evident, however I couldn't find empirical studies which try to evaluate how global events affect regional or national level.

Analysis if global textile and apparel sector trends show that Asian crisis of 1997 pushed textile and apparel sector towards deeper globalization, and companies towards more active internationalization. The events of September 11 had an opposite effect. It limited business activities at regional level, has intensified competition in the

European Union Textile and apparel market, stopped investment in the USA and EU textile and apparel sector. Statistical data show, that September 11 and China entry pushed EU companies to compete with cheaper export and by shifting production capacities to countries with lower cost.

Trade liberalization of 2005, when quotas were restricted and tariff barriers were reduced, led to changes in the forms of protectionism around the world. Non-tariff barriers, preferential systems, free trade agreements and requirement to comply with the rules of origin became more frequent. Governments started to use interventions in the sector in order to help to maintain its competitiveness.

Analysis of the European Union textile and apparel sector trends show, that EU institutions are committed to allow the textile and clothing sector to face global business environment changes and apply only the minimum of intervention measures to protect EU textile and apparel industry from non tariff barriers and plagiarism in non EU countries.

After the trade liberalization of 2005 import textile and apparel to EU market intensified. It happened not only because developing non-EU countries intensified their penetration to EU textile and apparel market, but because of EU business relocation to lower cost non-EU countries and re-export consequently.

On the other hand, EU is engaged in promoting innovations, protection of intellectual property and improvement of workers skills. Trade regulation measures were revised, a system of double provision entered into force and new preferential rules of origin were created, which have to protect EU producers from unfair third countries invasion.

Therefore, EU producers less and less use risky direct investment forms in EU and rely more on less risky manufacturing contracts. It is the producers' reaction to the growing competitiveness. On the one hand it gives an opportunity to contractor to change the manufacturing markets easily; on the other hand it hardens existence of producers from transitional economies of EU.

**Research limitations/implications:** It was impossible to identify some of the trends because of the lack of special statistical data. For example, statistical data about different international expansions forms used by companies are not collected. That is the reason why only trade statistics was analyzed.

**Originality/value:** An author distinguishes important economical and non-economical textile and apparel sector factors which can be used as a background for business environment scanning and trends identification in the sector.

Analysis shows regional reactions to some global business environment changes. A deeper understanding of possible reactions can make business environment more predictable to business than it was before.

**Keywords:** Textile and apparel sector, global trends, European Union Trends

### **Biography**

Erika Vaiginiene is a lecturer at Vilnius University Faculty of Economics as well as at International business school at Vilnius University. Her main fields of interest are International business, International economics, Small business. She started academic work in 2000. In 2009 she defended PhD thesis "Company internationalization in a volatile business environment (a case of Lithuanian textile and apparel industry)". As a young scientist she got prize nominations at the competitions of Young scientists at Vilnius University Faculty of Economics at 2005, 2006 and 2007. She was nominated as a best lecturer of the year at the Faculty of Economics in 2006. At present she is a member of such academic organizations as Academy of Management, Academy of International Business, European Academy of International business and a country director of EuroMed Research Business Institute.

## THE ROLE OF NGO IN HIGHER EDUCATION AND RESEARCH POLICYMAKING PROCESS

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### Abstract

**Purpose:** The cooperation of interest groups in higher education and research sector enables economic growth and social development through implementation of innovative systems.

Nevertheless, the empirical researches show a rather passive cooperation between stakeholders in higher education and research policymaking process. Moreover, interest groups representing society, various non-governmental organisations (NGOs) are left behind in the policy making process. The aim of this article is to disclose the existing NGO's role and to disclose the possible role of NGOs in the higher education and research policymaking process.

**Design/methodology/approach:** The comparative analysis of the NGO's role in higher education and research policymaking process in Austria, Denmark, Great Britain, Finland, Hungary and Lithuania was conducted by applying the selected theoretical models. The study is concluded with recommendations concerning NGO's possible role in the higher education and research policymaking process.

**Findings:** The analysis proved that NGOs fall into the cluster of Often Forgotten Players, which has little or no influence on higher education and research policy development. However, Finland, Denmark and Austria are distinctive in this respect, where NGOs are rather active players in higher education and research policymaking process. NGO's representatives of the mentioned countries illustrate the way of how to influence the higher education and research policy as well as to make an impact to socio-economical development.

NGOs in the analysed countries can influence the higher education and research policy by performing the following functions:

- Creating a background for the development of internationally competitive clusters of excellence and expert panels (e.g. Finland “FinnSight 2015” project);
- Creating the national insight networks by cooperating with field experts and higher education and research institutions;
- Improving national competitiveness of innovation systems and developing the scientific research abilities by allocating the funds for high quality research projects. (e.g. Austrian Science Fund);
- Participating in strategic planning process by initiating the dialogues with interest groups and higher education and research policymaking institutions (e.g. Denmark);
- Acting as an independent expert for the evaluation and monitoring of the results created by higher education and research policy.

The analysis of foreign experience of NGOs participation in the higher education and research policymaking process has illustrated several constructive examples. After analysing the experience of Finland and Austria in higher education and research policymaking process, we recommend the facilitation of active NGO's participation by creating the permanent working groups, which analyse economical, social, market trends and form the insights for the development of these areas. This would create a national insight network for ensuring the cooperation between NGOs, field experts as well as higher education and research policymakers.

NGOs could act as supervisors of higher education and research policymaking via active cooperation with institutions. This would ensure the proper implementation of higher education and research policy tools. However, those tools could require the adaptations to specific context of countries' administrative cultures in the countries.

**Research limitations/implications:** This study is based on the analysis of the official policymaking documents, which might be distant from reality.

**Originality/value:** There is a lack of the empirical research done in the area of NGO's role in the higher education and research policymaking process. This study summarises previously performed researches and adds value by outlining the best practices of analysed countries.

**Keywords:** Non-governmental Organisation; Policymaking, Higher Education and Research Policy.

## Biography

**Erika Vaiginiene** is a lecturer at Vilnius University Faculty of Economics as well as at International business school at Vilnius University. She started academic work in 2000. Her PhD thesis “Company internationalisation in a volatile business environment”.

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## AN INTERINDUSTRY ANALYSIS OF INTERRELATIONSHIPS BETWEEN AGRICULTURE AND MANUFACTURING SECTORS

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### Abstract

The principal objective of this study is to establish quantitative interrelationships among the major producing sectors within the national economy of Greece, with major emphasis on the interrelationships between agriculture and Manufacturing sectors.

The method adopted to establish these interrelationships was the basic Leontief input – output model using linear and homogeneous production functions. The interindustry or input – output methodology provides a framework within which the contribution of each industry to the economic effect can be evaluated.

The national economy was divided into 29 sectors that represent the principal economic sectors of the country. This division shows the economic importance of each sector and the interdependence that exists between these sectors.

With respect to the empirical implementation of the study the multipliers and other indices all indicate that the most important sector in the Greek economy is manufacturing.

Changes in production of manufacturing generate a great change in the economy, in terms of income and wealth.

The remaining sector plays major or supporting roles reacting in response to economic stimuli provided mainly by manufacturing and partly by agriculture sectors.

So, the model, used, does provide a better understanding of relationships between sectors and structure of the national economy.

The major criticisms of input – output analysis concern its assumption of stable technical coefficients. The value of conducting a study of sector interrelationships, is due to the fact that in useful to public and private planners interested in economic growth.

Consequently , public policy aimed at promoting economic growth appears to require some know ledge of relationships of various sectors.

**Keywords:** Interindustry analysis, Agriculture and Manufacturing interrelationships, structure of the economy, public policy.

## A METHODOLOGY TO REDUCE FLOWERS WASTE IN THE POST HARVEST PROCESSES

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### Abstract

The study deals with performance improvement in flowers mixed farms. The farm under investigation is located in the central part of Israel, grows about 15 types of green ornamentals and flowers. Most of the business is based on four types: Aralia, Aspidistra, Ruscus, and Antirrhinum. The farm consists of 22 hectares and employs 18 workers. Ruscus, Aralia and Aspidistra are grown each in 4 hectares and Antirrhinum in one hectare. Ruscus and Aralia are marketed in bundles of 50 branches, Aspidistra in bundles of 30 branches and Antirrhinum in bundles of 10 branches. The average annual yield per hectare is 800,000 branches. The branches arrive to the packing house and go through some routine processes of washing, sorting, cutting, bundling, cellophane wrapping and packing.

Research findings show that waste is a dominant issue. Branches that are not complied with market quality specifications are not sold and counted as waste. During harvesting, waste is 10% on the average and is caused due to human errors, insects, weather effects or handling issues. Observing the processes in the packing house showed that the rate of the waste may reach up to 30%. For example, figure 1 presents the waste rate of Antirrhinum.

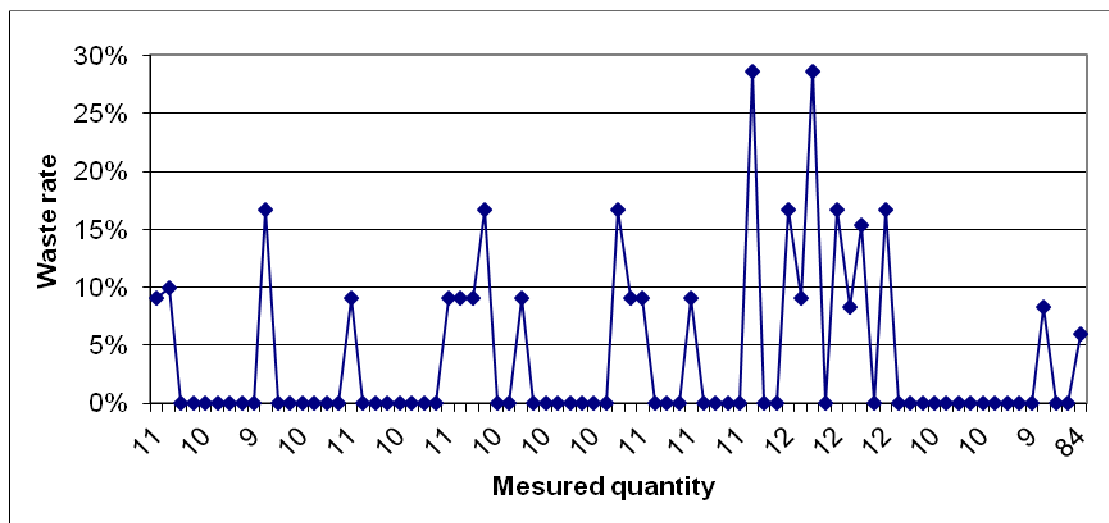


Figure 1: Waste rate of Antirrhinum in the packing house.

In order to reduce the waste rate it was decided to develop a model for waste management. The rationale is to eliminate any process in a specific work station that does not have any added value. It is important to control the work such that a branch that does not comply with the specifications will be removed from the routine line as early as possible. It was found that the maximum waste to be defined as the threshold to continue the process is: 10%, 75%, 35% and 21% for Ruscus, Antirrhinum, Aspidistra and Aralia, respectively.

A simulation model using the Arena package was developed. The independent variables that were investigated were:

Crop types: Ruscus, Aralia, Aspidistra and Antirrhinum.

Order quantity: 500-5,000, with 1,000 intervals.

5,000-50,000, with 5,000 intervals.

Waste rate: 0-100% with intervals of 10%.

Number of workers: 1-8.

Simulation results Show that the processing time is a function of the waste rate (see figure 2) and enables the farmer to decide according to the waste threshold for each crop to decide on the operating strategy to be used in a given work day.

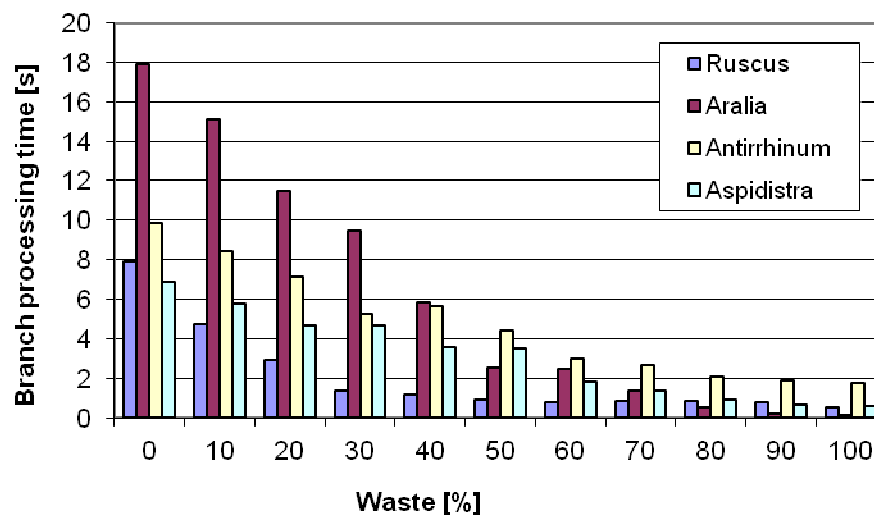


Figure 2: Process time as a function of waste rate

The results show that for the Aralia, moving from 10% to 20% of waste reduces the process time with 3.6 secs.

**Keywords:** Green ornamental, waste, simulation, Productivity.

## **SOCIAL CORPORATE RESPONSIBILITY EFFECTS ON FIRM PERFORMANCE: INSIGHTS FROM THE FOOD SECTOR**

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### **Abstract**

**Purpose:** The present study addresses a central research question: Do social corporate responsibility influence firm performance? We focus on the food and develop a conceptual framework of corporate responsibility within the food and agribusiness sector. In doing so, we extend the definition of social corporate responsibility by including food quality and safety and other variables. We argue that social corporate responsibility has a particular meaning in the food sector because food products relate direct to the environment, the public health and the coherent of local societies.

**Design/methodology/approach:** We surveyed managing directors managers in Greece sending structured questionnaires via fax and recorded their perceptions on corporate responsibility and its relation to organizational performance. Survey took place during September-December 2009.

**Findings:** Results provide insights about corporate responsibility practices and their relation to firm performance. Directions for further research are provided.

**Originality / Value:** This study is uniquely extending the current definition of corporate responsibility and it presents an original conceptual framework to be applied in the food and agribusiness sector.

This study has both theoretical and practical implications.

**Keywords:** Corporate responsibility, firm performance, food sector.

### **Biography**

**Dr. Ilias P. Vlachos** is currently assistant professor at the Agricultural University of Athens, Greece. He holds a Ph.D. from Cranfield University, UK. His research interests include: business management, supply chain management, human resources management, corporate social responsibility and e-business.

Ilias has 8 years of experience at Agricultural University of Athens, 7 years at Hellenic Open University, Greece, and many years of lecturing at various universities worldwide.

Dr. Vlachos has participated in many competitive Greek and European research projects, succeeding in most of them. He has published more than 70 research papers in peer review journals (including 3\*), books chapters, conference studies etc.

## SUSTAINABLE STRATEGIES FOR SMEs FROM TRADITIONAL, REGIONAL INDUSTRIES: THE CASE OF MESSINIAN REGION, GREECE

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### Abstract

**Purpose:** Research questions: Products embedded in a region (such as Products of Destinated Origin / PDOs) face significant obstacles to access remote markets, even to domestic ones, since there are a number of inherent difficulties in promoting and managing, in general, such products from the point of production to the market place.

This paper addresses to central research questions:

- how the sustainability issue relates to regional, traditional industries
- what are the prerequisites for sustainability and the corresponding barriers posed to regional food chains
- how sustainability relates to the performance of SMEs, operating in a traditional, regional industry
- what are the advantages of marketing sustainable products
- what region-based strategies could SMEs develop to transform the challenge of sustainability to opportunities ?

**Design/methodology/approach:** Development of a conceptual constructive action framework with reference to regional conditions. Focus on SMEs that produce and/or trade products in the region of Messinia, Greece . Messinian region is well-known for traditional products such as olive oil, olives, raisins, figs, etc. A survey study includes a questionnaire that aims at measuring sustainability, market access, and supply chain performance. Direct contact has been carried out with a number of managing directors of SMEs via semi- structured interviews. Using case study protocol there will be a combination of case analysis and cross-case analysis.

**Expected Findings:** Results will provide insights on how SMEs strategies can achieve sustainability requirements.

**Originality / Value:** Improving know-how by unique focus on the sustainability of regional, traditional products and its effects upon supply chain performance and market access. This study has practical implications for regional-based SMEs in the

design of strategies to produce sustainable competitive advantage. Moreover, sustainability has significant direct social, economic and environmental implications.

**Keywords:** Sustainability, SMEs, Regional Food Chains, Performance.

## Biography

**Dr. Ilias P. Vlachos** is currently assistant professor at the Agricultural University of Athens, Greece. He holds a Ph.D. from Cranfield University, UK. His research interests include: business management, supply chain management, human resources management, corporate social responsibility and e-business.

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Dr. Vlachos has participated in many competitive Greek and European research projects, succeeding in most of them. He has published more than 70 research papers in peer review journals (including 3\*), books chapters, conference studies etc.

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He has more than 9 years lecturing experience in Universities, as well as in managers' executive seminars. He has participated in more than 20 group projects concerning the re-engineering of the supply chain processes in enterprises and organizations in Greece and UK and in many scientific conferences worldwide. He has published many scientific papers, chapters in books, etc.

## THE LEARNING NEEDS OF PUBLIC ADMINISTRATION MANAGERS

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### Abstract

The purpose of this paper is to discuss the key findings from a project which focused on assessing the learning needs of managers in Cyprus public service. The project is managed by the Cyprus Academy of Public Administration (CAPA), and was implemented by the international center CARDET and the consulting firm INNOVADE Leadership and Innovation LTD. The project was funded by the European Social Fund and the Republic of Cyprus.

Within the broader plan for improving public service, this project was initiated by CAPA to identify the learning needs of managers in three areas: leadership, management and strategy. The managers were classified in 3 categories: Upper level, middle level, and low lever managers. The project began in December 2009 and ended in May 2010.

A large scale survey was conducted in order to identify the learning needs across all services, ministries and departments of public service. In order to develop the instruments, we consulted the international literature and held a focus group with key stakeholders. After the first draft of the instrument was developed, it went through several phases of piloting and revising until it was finalized. The questionnaire was administered using stratified sampling procedures. A total of 1164 questionnaires were mailed or delivered, and 784 were returned (response rate 67.4%). In addition to the survey 28 in-depth semi-structured interviews were conducted with mangers from all three levels, and 5 focus groups were held with managers.

During data analysis we followed two stages: the inductive and deductive stage. First, we collected and organized all the data. The data from the survey were entered in SPSS and we calculated descriptive statistics. Comparisons across levels were conducted using one-way ANOVA. We prepared tables, graphs and diagrams to help illustrate main ideas. We then read through the qualitative and quantitative data several times to gain an overall understanding of the learning needs of managers and the challenges they face. We wrote notes and memos about those issues and events that emerged and began to generate assertions. Assertions are propositional statements that indicate relationships and generalizations in the data. Once we generated assertions from the data as a whole, we entered the deductive stage. In this stage we engaged in detailed examination of the data and looked for evidence that supported or



disconfirmed our assertions. We juxtaposed and weighed all evidence. We examined all instances carefully and tried to determine whether to keep each assertion, refine it, or drop it.

During this presentation we will discuss the success and challenges of the project, as well as discuss some of the key findings.

## A COMPARATIVE STUDY BETWEEN CYPRUS AND TURKEY ON FACTORS INFLUENCING YOUNG CONSUMERS' WINE BEHAVIOURS

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### Abstract

**Purpose:** The purpose of this study is to compare the factors influencing young consumers' wine consumption in Cyprus and Turkey. Since both countries are in Mediterranean and have very similar food consumption culture, the research will identify wine consumption behaviours and factors influencing wine consumption of young Cypriot and Turkish consumers comparatively.

**Design/methodology/approach:** The study will present the findings of focus group studies conducted in Cyprus and Turkey. The focus group studies will be conducted with 18-25 years old consumers. Although young consumers usually prefer beer they are also future consumers of wine and the research will identify young consumers' perceptions for wine.

**Findings:** The expected developments between Turkey and Cyprus will reflect the trade between these countries. Therefore insights of this study will offer propositions to wine producers in both countries for import-export trade in the future.

**Research limitations/implications:** Small sample size and data collection method limit the generalisability of the findings.

**Originality/value:** This is the first research comparing Cypriot and Turkish young wine consumers' behaviours.

**Keywords:** Consumer Behaviour, Wine Consumption, Wine Marketing, Turkey, Cyprus.

## CUSTOMER GENERATED MEDIA: IMPLICATIONS FOR QUALITATIVE RESEARCH IN THE SOCIAL WEB

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### Abstract

**Purpose:** The call for papers for Track 75 of the Euromed Conference included the evolving nature of the customer experience in the move from locally-situated traditional sites to Internet-determined marketing interfaces. With this in mind this paper seeks to examine organisational and user generated contents in the travel market and ways of facilitating information sharing and collaboration on the Web, abetting the growth of customer generated media.

**Design/methodology/approach:** An exploratory study was implemented with six student groups consisting of postgraduate students to investigate their online searches and purchases of travel services. These postgraduate students in the age range between twenty-two and thirty-two fitted the profile of typical internet-informed customers who make online travel purchases and spend more than two hours a day on the internet with some spending four hours or more per day in various web communities, e-forums and social networking sites. The study was triangulated through personal checking with the students using personal interviews, their focus group responses and observations of their online communications with the inclusion of relevant literature sources.

**Findings:** There was a tendency for participants to be uncritical of organisational and user generated contents and even more uncritical of online customer reviews at face value without asking reasons why. However, the participants became more analytic and less passive when taking account of e-Wom and Customer Generated Media (CGM).

**Research limitations/implications:** This was a small exploratory study limited to six student groups, each averaging around six to eight members per group. The study could be extended to other types of student groups and the influence of group dynamics in online searches might be an interesting avenue to explore.

**Originality/value:** The study assists with a qualitative research gap concerning information that exists and changes e.g. in a state of flux and how these participants as customers could make sense of existing CGM to improve the credibility of online information.

**Keywords:** Customer Generated Media, e-WOM, exploratory research online searches, travel



