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2013 Proceedings of the Tenth World Congress
of the
Academy for Global Business Advancement (AGBA)

Held at the
King Mongkut's Institute of Technology Ladkrabang
(Thailand)

On
June 15---17, 2013

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Volume 1 of 2
Preface

This volume contains the proceedings of the 2013 Academy for Global Business Advancement (AGBA’s) 10th World Congress held at the King Mongkut's Institute of Technology Ladkrabang (Thailand) on June 15---17, 2013.

Papers selected for presentation at the Congress and for inclusion in these Proceedings have been double-blind peer-reviewed and explore the cutting edge of knowledge and theory in their respective research domains and disciplines.

These proceedings are edited by David McArthur, Utah Valley University (USA), Rajan Varadarajan, Texas A&M University (USA), and Zafar U. Ahmed (Lebanese American University, Lebanon) assisted with patience, diligence, and professionalism by Silvia Lobendahn at Utah Valley University (USA).

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The editors of these Proceedings have tried to balance completeness with the space constraints inherent in a published volume of a global congress with more than 162 papers. Many authors are enthusiastic about their work and in that enthusiasm, some, after their papers were accepted to the conference, did not remember to or respond to repeated messages to submit final drafts for the proceedings whose bodies were 10 pages in length. Thus, many papers in these two volumes have had some sections of text, exhibits, charts, tables, or references omitted or shortened by the editors for space considerations.

Working papers and doctoral student papers have been published in abstract form in latter-part of Volume 2.

Readers who would like to have complete copies (including any omitted elements) of any of the papers in these Proceedings are invited to contact the papers’ authors.
Welcome to the 10th AGBA World Congress!

We would like to take this opportunity to extend a warm welcome to all delegates attending AGBA’s 10th World Congress being held in collaboration with the King Mongkut's Institute of Technology Ladkrabang (Thailand) on June 15---17, 2013.

More than 200 AGBA delegates are participating in a wonderful program that includes more than 100 global delegates hailing from different countries around the world.

The main theme of our conference is “Business and Entrepreneurship Development in a Globalized Era”. Our conference will feature competitive papers and special sessions.

Our conference’s primary goal is to provide a unique global platform to facilitate the exchange of leading-edge ideas for effective advancement of knowledge in business and entrepreneurship; where academics, professionals, consultants, government officials and entrepreneurs from both developed and developing countries are engaged in intellectual discourse for the generation and dissemination of knowledge to facilitate the globalization process for the betterment of humanity. This will be achieved through multidisciplinary presentations and discussions of current business and development issues in emerging and developed countries. Your participation in this great conference is helping us achieve these goals!!!!

We wish you good luck in your presentations and conference deliberations.
Special Acknowledgement

AGBA’s “Global Board of Trustees” would like to recognize the special contribution made by the management team at the MIDAS Communication Ltd, (Thailand) under the dynamic leadership of its Founder, President and CEO (Ms. Karin Lohitnavy) for making this 10th global conference a grand success.

AGBA outsourced the operational side of the conference management for the first time in its history to a nationally acclaimed and well reputed professional event management company (MIDAS Communication Company Ltd, Thailand) to organize its 10th global conference on a professional basis.

MIDAS has done a fabulous job from identifying appropriate sponsors to selecting suitable hotels, from organizing printing of promotional material to producing these proceedings, and from hosting delegates to organizing interesting sightseeing tours.

Hence, while attending your conference, whenever you run into any member of MIDAS Management Team, kindly say “Thank You”.
AGBA Brief:

Academy for Global Business Advancement (AGBA) was established in the American State of Texas as a "Not-for-Profit" organization in 2000. It is proud to boast today a membership of more than 1000 members based in more than 50 countries, that include scholars from reputed academic institutions, corporate leaders, governmental officials, entrepreneurs and consultants based in western and emerging countries.

AGBA, as a global organization, aims to help academics and scholars at business schools across the emerging countries to connect with the western (developed) world for mutual benefit. Such collaboration would accelerate the process of globalization by furnishing ample opportunities to scholars in emerging countries to get recognition, disseminate new knowledge and assert themselves on the global stage.

AGBA’s Vision

To be globally recognized as a leading "not-for-profit" organization dedicated to serve the academic, professional, government, corporate and entrepreneurial sectors worldwide.

AGBA’s Mission

Building on the dynamics of the ongoing globalization process, AGBA is committed to provide a global platform aimed at assisting academics, scholars, professionals, officials, entrepreneurs and consultants of emerging countries to assert themselves on the global stage for recognition, networking and dissemination of knowledge.

AGBA’s Core Business:

- Nurture globally competitive talents; expertise and skills across the emerging countries;
- Arrange apprenticeships for academics, scholars, professionals, officials, entrepreneurs and consultants on the global stage;
- Provide advisory services to upcoming business schools across the world for accreditation by the Association to Advance Collegiate Schools of Business (AACSB);
- Provide advisory services to peers worldwide to obtain “Fulbright Grants” from the US government successfully;
- Offer customized training worldwide;
- Offer professional development programs;
- and Provide “Global Entrepreneurship Development” services.
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- School of Commerce and Management, Southern Cross University, Australia
- MIDAS Communications Ltd., Bangkok, Thailand
- King Mongkut’s Institute of Technology at Ladkrabang, Bangkok, Thailand

PAST AGBA CONFERENCES

2004  Inaugural World Congress in Delhi, India
This conference was attended by more than 100 local and global delegates. Please visit our website for photos and proceedings.

2005 Second World Congress in Delhi, India
This conference was attended by more than 100 local and global delegates. Please visit our website for photos and proceedings.

2006 Third World Congress in Kuala Lumpur, Malaysia
This conference was held at the Management and Science University (MSU), Kuala Lumpur, Malaysia. It was attended by more than 150 local and global delegates. Please visit our website for photos and proceedings.

2007 Fourth World Congress in Kuala Lumpur, Malaysia
This conference was held at the Universiti Sains Malaysia (USM) in Penang. It was attended by more than 150 local and global delegates. Please visit our website for photos and proceedings.
2008 Fifth World Congress in the Kingdom of Bahrain
This conference was attended by more than 200 local and global delegates. Please visit our website for photos and proceedings.

2009 Sixth World Congress in Kedah, Malaysia
This conference was held at the Universiti Utara Malaysia (UUM), Kedah, Malaysia. It was attended by more than 200 local and global delegates. Please visit our website for photos and proceedings.

2010 Seventh World Congress in Kuala Lumpur, Malaysia
This conference was held at the Graduate School of Management (GSM), Universiti Putra Malaysia (UPM), Malaysia. It was attended by more than 250 local and global delegates. Please visit our website for photos and proceedings.

2011 Eight World Congress in Dalian, China
This conference was held at the Dongbei University of Finance and Economics (DUFÉ) in Dalian, China. It was attended by more than 250 local and global delegates. Please visit our website for photos and proceedings.

2012 Ninth World Congress in Ajman (United Arab Emirates)
This conference was held at the Ajman University of Science and Technology (AUST) in Ajman (United Arab Emirates) on March 19---21, 2012. It was attended by more than 300 local and global delegates. Please visit our website for photos and proceedings.

2013 Tenth World Congress in Bangkok (Thailand)
This conference will be held at the King Mongkut’s Institute of Technology at Ladkrabang, Bangkok, Thailand on June 15-17, 2013.

AGBA Publications

AGBA Journals: AGBA’s Two Official Journals Are Published in Collaboration with Inderscience Publishers of UK/Switzerland (www.inderscience.com).
(1) Journal for Global Business Advancement
ISSN (Online): 1746-9678 - ISSN (Print): 1746-966X
(2) Journal for International Business and Entrepreneurship Development
ISSN (Online): 1747-6763 - ISSN (Print): 1549-9324

Both of these journals are indexed in:
• Scopus (Elsevier)
• Academic OneFile (Gale)
• Business and Company Resource Center (Gale)
• Expanded Academic ASAP (Gale)
• General BusinessFile ASAP International (Gale)
• General OneFile (Gale)
• Google Scholar
• InfoTrac Custom Journals (Gale)
• Inspec (Institution of Engineering and Technology)
• Scirus (Elsevier)

Both of these journals are also listed in:
• Australian Business Deans Council Journal Rankings List 2012
• Cabell's Directory of Publishing Opportunities (2012)
• Excellence in Research for Australia (ERA): Journal list 2012

**AGBA's Regional Chapters**

(1) "AGBA – Malaysia Chapter" is Based at the "Management and Science University of Malaysia". Please visit http://www.msu.edu.my for details.

(2) "AGBA – Pakistan Chapter" is Based at the "COMSAT Institute of Information Technology, Islamabad, Pakistan".
Please visit http://www.agba.org.pk for details.

**AGBA Projects**

AGBA is contemplating to launch following additional projects in the foreseeable future in order to assist academic institutions and professional bodies across emerging countries to assert themselves on the global stage:

(1) Launch of a brand new "AGBA Journal" in collaboration with a major global publisher;
(2) Publication of an annual monograph consisting of best papers out of our conference proceedings by a reputed global publisher;
(3) Upgrading of a business school to the global standards in an emerging country;
(4) Launch of a "global doctoral program in global management" jointly offered by 3 different reputed universities based in 3 different continents (North America, Europe and Asia);
(5) Establishment of a "global consulting wing" within AGBA framework;
(6) Establishment of additional "agba chapters" across brics countries (Brazil, Russia, India, China and South Africa) etc.
(7) Selection of a business school for assistance in an emerging country for accreditation by aacsb:
(8) Coaching and mentoring of few selected academics to acquire Fulbright grants, sponsored by the US government;
(9) Development of professional development programs for the training of policy makers on Indian, Chinese, Malaysian, and Brazilian economic miracles; and
(10) Acquisition of grants from global organizations for the pursuance of global research.

**Consulting Worldwide**

Consulting Worldwide

AGBA maintains a roster of more than 1000 members hailing from more than 50 countries, who offer their world-class expertise for consulting globally at a subsidized rate.

Their expertise, skills and competences range from entrepreneurship development to institution building, from AACSB accreditation to establishing new business schools, and from entrepreneurship development to professional development.

If you are interested to engage their services for the pursuance of any project, kindly contact AGBA President/CEO at the following address for details:

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BBA (New York), MBA (Texas), Ph.D., (Utah), D. Litt., (India)  
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Penang

2013 Doctoral Dissertation Award
To be announced at Thailand Conference

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Regular Annual Membership Fee: $ 100
Regular Annual Membership Fee for Students: $ 50
Regular Annual Institutional or Corporate Membership Fee: $1000
Regular Institutional or Corporate Membership Fee (LDCs): $500
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(1) World Bank Resources:
(2) BBC Resources:
http://www.bbc.co.uk/worldservice/business/review_globbus.shtml
(3) Governmental Resources:
(4) Cultural Information:

(5) Global Videos:
http://www.aperianglobal.com

(6) Videos, DVDs and CDs
http://www.bigworldmedia.com/

(7) Films
http://ffh.films.com/Films_Home/Index.cfm

(8) International Trade Webcasts
http://www.fita.org/webcasts.html

(9) TV Archives and Film Library
http://www.footage.net/

(10) Interviews With Leaders:
http://www.globalization101.org/ask

(11) Educational Media:
http://www.insight-media.com/IMHome.asp

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http://www.pbs.org/newshour/video/index.html

(13) American Chamber of Commerce:
http://www.uschamber.com/webcasts/default

(14) United Nations Webcast Archives
http://www.un.org/webcast/archive.htm

(15) TV News Archives:
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(28) Interpretive Simulation
(29) MIT Resources:
(30) Miscellaneous Other Relevant Resources:
   http://www.fita.org/webcasts.html
   http://www.academic360.com/general/US.cfm
   http://www.nacra.net/nacra/
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   http://www.worldgameofeconomics.com
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AGBA offers assistance to its members seeking information about career development as well as job placement. Delegates attending our annual global conferences are assisted in career counseling and job placement. Many universities have interviewed candidates at our previous conferences and many more institutions from all over the world are expected to interview candidates at future conferences. AGBA members are encouraged to browse through the following websites for career development:
2013 AGBA News

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(2) AGBA is inviting proposals from academic institutions, professional organizations and governmental agencies to establish its regional chapters across all BRICS countries (Brazil, Russia, India, China, and South Africa).

(3) AGBA is inviting nominations to designate additional "AGBA Fellows" based in different regions across the world. "AGBA Fellow" is the highest honorary title conferred on a “world-class academic, or scholar, or entrepreneur, or professional, or consultant” for his/her outstanding contribution to the advancement of the field of global business and entrepreneurship. This honor is conferred at its global conferences.

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Competitive Papers
The Globalization of Chinese Enterprises: Examining Pathways to Performance

ABSTRACT

Our study proposes an integrated research framework mechanism between Perceived International Risk (PIR) and International marketing Performance (IP) by adopting a moderator variable, International Experience (IE) and a mediating variable, international Market Entry Mode (MEM). The results show a significant negative relationship between Perceived International Risk (PIR) and International Performance (IP). Perceived International Risk (PIR) also has a negative relationship with the Market Entry Mode (MEM) chosen by the firm. However, the greater the level of Market Entry Mode (MEM) the greater the International Performance (IP) while International Experience (IE) produces a positive effect on Market Entry Mode (MEM). It appears that MEM mediates the relationship between PIR and IP. Additionally, the path from IP from PIR is moderated by IE. Our paper reveals there is a complex relationship between Perceived International Risk (PIR), International Experience (IE), international Market Entry Mode (MEM), and the firm’s International Performance (IP).

Keywords: Internationalization Theories and Foreign Market Entry, Structural Equation Modeling, China

The Globalization of Chinese Enterprises: Examining Pathways to Performance

The process of internationalization has become an important academic discussion with both economic and managerial whether the firm makes a conscious, strategic country-entry decision or is forced, by market circumstance, to seek access to alternative markets. A number of theoretical frameworks have been advanced to explain the relationship between the internationalization efforts of businesses and resulting performance in targeted foreign markets (Zhou, Wu, & Luo, 2007). In general, the process of internationalization is approached from a transactional cost perspective or an institutional point of view. Some scholars have attempted to integrate the two (Brouthers, 2002; Roberts & Greenwood, 1997),
while others suggest it is primarily the managerial mindset that influences internationalization (Nadkarni, Hermann, & Perez, 2011). The academic literature has, therefore, focused on antecedents in the strategic task environment or organizational/institutional drivers to explain market entry decisions and their effects (Oliver, 1997).

As with any business decision, the risk-reward relationship of international expansion is of utmost consideration. Thus, in discussing entry into foreign markets, a number of risk factors are shown to influence the firm’s choice of entry mode. Foreign direct investment is affected by the parent’s knowledge of the host, its investment in technological development, and the cultural distance between the home and host (Padmanabhan & Cho, 1996). The home country’s cultural and economic conditions effect on mode of entry has also been the focus of a number of studies (Mayrhofer, 2004). Product complementarity between the foreign direct investor and the local partner has been shown to enhance international performance (Luo, 2002), while Kale and Anand (2001) show that a restrictive or liberal application of governmental control has far reaching implications for the performance of foreign direct investors in emerging markets.

Much of the academic literature on the antecedents of internationalization, modes of entry, and respective business outcomes describes the experiences of existing international firms entering emerging markets. These include examinations of the internationalization efforts of U.S. computer software developers (Brouthers, 1995), the largest companies in the EU (Brouthers, 2002), U.S. based multinationals (Kim & Hwang, 1992), U.S. pulp and paper manufacturers (Davis, Desai, & Francis, 2000), the largest service multinationals from the Triad (Li and Guisinger, 1992), and U.S. internet firms (Rothaermel, Kotha, & Steensma, 2006). It is not clear however, whether size, in itself (Contractor, Kundu, & Hsu, 2003), or level of diversification (Gaur & Kumar, 2009) have a direct relationship with performance. Prior research on risk in internationalization is also concentrated in the western developed countries (Padmanabhan & Cho, 1996); only a few scholars study firms in lesser developed countries (LDCs) entering more advanced societies (Gaur & Kumar, 2009). Studies based on China’s economic context are particularly sparse. In one of the few studies based in emerging markets, Zhou et al (2007) suggest that the social networks accessible to small and moderately sized Chinese exporters serve as a resource that mediates the relationship between internationalization efforts and firm performance. Ahmed, Mohamad, Tan, and Johnson (2002) suggest that Malaysian firms were not aware and did not search extensively for information about export programs which might aide them in reducing risk. Specific to our research, Ahmed et al (2002) investigate eleven risk variables faced by Malaysian multinationals, finding a relationship between perceived risk and mode of international entry such that low levels of risk perception are associated with high control modes of entry and high risk is associated with low control modes of entry.

Risk is obviously elevated when firms from emerging markets or with no prior international experience begin an internationalization process; firms with a singularly domestic mindset and experience face new levels and forms of competition. Firms from emerging markets tend to have less resources, management experience, market knowledge, and face a level and sophistication of competition not previously encountered; they may expect varying levels of performance as they initially confront global, multi-domestic, and transnational marketplaces (Nadkarni et al, 2011). In this regard, the literature is substantially less replete (Gaur & Kumar, 2009), particularly with reference to Asian countries (Padmanabhan & Cho, 1996). Much of the literature examines transaction cost and other variables on market entry mode to
the exclusion of performance implications (Brouthers, 1995; 2002; Chen & Hu, 2002). Others consider the effects of mode of entry on performance to the exclusion of other variables that might also influence the relationship (e.g., Oliver, 1997). Therefore, our research seeks to build an integrated model of managers’ perceived risk, its influence on market entry mode, and further evaluates the mediating/moderating functions of entry mode and experience on international performance. This study is from the perspective of managers in an emerging market, China, as they approach world markets. Our analysis tests the mediating and/or moderating influences of perceived risk and entry strategy on firm performance concluding with a discussion of implications of these results for management.

Perceived Environmental Uncertainty
A firm’s operating environment influences that organization’s ability to succeed (Thompson, 1967); performance, to a large extent, may be driven by the characteristics of the internal and external environment (Hannan & Freeman, 1977). This is especially true in international market entry and foreign operations of firms due to psychic distance, where limitations of a marketer’s cultural and business experience combine with perceived differences in marketing, legal, political, and financial systems in the target country work in combination to increase uncertainty (Evans & Movando, 2002). Perceived environmental uncertainty (PEU) is a multi-dimensional construct composed of political/governmental risk, product/market risk, resource/supply risk, macroeconomic/financial risk, and competitive forces (Miller, 1992; Werner, Brouthers, & Brouthers, 1996). Prior research suggests that there are primary, competitive, and behavioral sources of uncertainty; an organization’s mode of entry may be based on the type and level of perceived environmental uncertainty (Kulkarni, 2001). Predicting that greater environmental uncertainty leads to greater risk, Brouthers, Brouthers, & Werner (2002) found direct and interactive effects of PEU on modes of international market entry in both service and manufacturing sectors.

Perceived Risk
Risk is the potential for the realization of unwanted, negative consequences of an event. Its major components are the existence of a possible unwanted consequence (or loss) and an uncertainty in the occurrence of that consequence (Rowe, 1977). Perceived risk has significant explanatory power in both consumer and industrial products. For example, Eggert (2006) demonstrated that consumer’s concerns over privacy, purchase security, and system vulnerabilities heighten perceived risk in online shopping environments. Where users are forced to accept new technology, aspects of perceived risk may present hurdles to the acceptance of such advances (Cocosila, Archer, & Yuan, 2009). In the industrial sector, managements’ perception of the environment influences the company’s adaptive strategies (Snow, 1976). Further, the strategy adopted based on the perception of risk has a significant bearing on the enterprise’s performance (Andrews, 1971).

The concept of perceived risk is especially poignant in foreign market expansion where psychic distance limits objective knowledge and increases uncertainty (Evans & Movando, 2002). Brouthers (1995) suggests that strategic international risk can be traced to management (control) issues and risks derived from the complexities of international markets. Peng (2002) analyzed Wal-Mart and Carrefour’s entry into Hong Kong surmising that subjective risk of change among consumers, combined with the objective risk of a localization strategy and inability to reach economies of scale led to failure. Zeng and Situ’s (2002) investigation of the Japanese retailer, Yaohan, and its failure suggest that underestimation of the risk in the development of emerging markets, the risk of non-core business operations, and the cost of funds needed to expand operations led to the project’s
Market Entry Mode

Choices in the mode of market entry range from exporting, through licensing, across various forms of joint ventures, to organic business formation. Factors influencing market entry strategy may be classified in three categories: (1) a firm’s financial and experiential assets; (2) foreign market potential; and (3) organizational efficiencies (Argarwal & Ramaswami, 1992). Explanations of market entry based on resource theory suggest that availability and utilization of assets determine market entry mode (e.g., Navarro et al, 2010). Transaction-cost theory posits a pre-eminent role for the level of control that each mode of market entry affords the organization (Chen & Hu, 2002). Other scholars point to structural factors such as firm size, experience, and product differentiation in determining market entry mode (Davis et al, 2000).

The literature describing transactional-cost determinants of market entry mode suggests that risk/reward trade-offs in market entry strategy largely determine foreign market entry mode. For example, firms perceiving higher uncertainty and risk should share the risk with local partners or devote relatively low resource commitments (Kim & Hwang, 1992). An investigation of ownership strategies by Japanese firms show a positive relationship between a firm’s knowledge of the host country, the research and development intensity of the firm, and the cultural distance between the home and host country tend to promote a full ownership structure while restrictions in the host country discourages full ownership (Padmanabhan & Cho, 1996). Examinations of foreign investment in China support the efficacy of transactional-cost theories in market entry modalities and performance where market entry modes prescribed by transactional-cost theory were more effective than non-conforming modes (Chen & Hu, 2002). Brouthers (2002) uses a firm’s institutional context, transaction cost variables, and cultural context to examine entry mode choice and, subsequently, predict a firm’s financial and non-financial performance.

Institutional theory scholars propose an institutional bias in the environmental-entry strategy and performance framework arguing that a firm’s organizational structure influences perceptions of the environment, which, in turn, affects international strategy. For example, Davis et al (2000) suggest that isomorphic pressures encourage strategic business unit (SBU) conformity to internal (parental) or external environments. Using institutional theory, other scholars investigating internationalization found that the positive relationship between internationalization and performance is inhibited by business group affiliation (Gaur & Kumar, 2009). Oliver (1997) found that both the task environment and institutional relations to be significantly associated with performance under certain conditions.

From an environmental perspective, Miller (1988) conducted a survey of eighty-nine companies in Canada exploring the power of environmental variables on corporate strategy and ultimate performance. This research suggests that a strategic match between certain environments and the mode of entry employed results in superior performance. Furthering the environmental perspective on organizational design, Kale and Anand (2001) observe that international joint ventures (IJV’s) formed in a restrictive environment generally allow for a disproportionate level of control by the foreign partner. Subsequent market liberalization causes this imbalanced relationship to become dysfunctional. In contrast, home-country environments have also been demonstrated to affect choice of market entry mode (Mayrhofer, 2004).
Context

With increasing globalization opportunities, Chinese international enterprises are more engaged in international trade than ever before. However, being largely unfamiliar with international markets and operational rules (including governmental and trade association compliance, finance, and distribution systems), they often encounter setbacks in their efforts; difficulties exacerbated by the outbreak and rapid spread of the global financial crisis in 2008. Affected by the decline in exports, a large number of foreign trade and processing enterprises reduced their output, stopped production, or closed. The shock of the financial crisis has certainly continues to influenced the size, robustness, and viability of Chinese international enterprises, especially among export-oriented enterprises.

The deterioration of the internationalization environment, bankruptcy experiences, and passive responses by numbers of Chinese international enterprises clearly demonstrates the significance of risk management to business operations, particularly by inexperienced enterprises. Exploring the effects of perceived international risk on international performance is of special significance for Chinese enterprises seeking to improve operational performance. This paper will discuss the international risks faced by Chinese enterprises from the perspective of perceived international risk and analyze the direct and indirect effect of perceived international risk on international performance monitoring the moderating effect of the international experience between perceived international risk and international performance.

Model and Hypotheses

It is proposed that perceived international risk (PIR) affects international marketing performance (IP) directly and indirectly through entry mode selection. In addition, the company’s international experience (IE) moderates the influence of international risk (IR) on its international performance (IP). Prior research suggests market entry mode as the key intervening variable in internationalization. As such, we propose that market entry mode (MEM) mediates the relationship between perceived international risk (PIR) and international performance (IP). A conceptual model of the relationships between perceived international risk (PIR) and international performance (IP) is proposed which introduces international experience (IE) as a moderating variable and market entry mode (MEM) selection as a mediating variable (see Figure 1). This model follows the suggestions made by Thomas, Cuervo-Cazurra, & Brannen (2011).

Scholars have indicated that internationalization is a sound business strategy in that it spreads overhead, enhances organizational learning, and provides access to cost effective or idiosyncratic resources (Contractor et al, 2003). Brouthers et al (2002) show that investment risk affects the selection of entry mode and consequent operational performance. Conversely, while there is some dispute with regard to the form of the relationship, it is generally assumed that the greater a firm’s multinational experience the greater a firm’s performance (Contractor et al, 2003). Therefore:

Hypothesis 1: Perceived international risk is negatively correlated with international
Hypothesis 6: International experience moderates the relationship between perceived international risk and international performance.

International Market Entry Strategy Selection

Given the complexity of the international environment, strategic decisions to enter foreign markets involve a variety of risks and threats. These risks are described as three control risks and eight market complexity risks (Ahmed et al, 2002; Brouthers, 1995). Thus, the internationalization risk/reward continuum goes from exporting to licensing, rising to joint ventures, acquisitions, and finally green-field investments; each level having greater risks, resource requirements, levels of control, and requisite environmental awareness (Davis et al, 2000). Prior literature suggests that firms having greater perceived risk in international market entry prefer lower control modes of entry, shifting the risk to local partners (Kim & Hwang, 1992). Therefore:

Hypothesis 2: Perceived international risk is negatively correlated with the selection of higher levels of control in international market entry.

Conversely, transactional cost and resource-based theories suggest that a firm should leverage higher levels of management expertise, assets, and international experience into higher levels of ownership (Padmanabhan & Cho, 1996). Chen and Hu (2002) suggest entry strategies that minimize costs and maximize output according to transaction cost theory will be more successful. Brouthers (2002) shows that transactional costs, as well as institutional factors affect entry mode choice, with higher levels of performance resulting from greater control. Therefore:

Hypothesis 3: Selection of higher levels of control in international market entry is positively correlated with international performance.

International Experience

Prior research suggests that, particularly in early internationalization, the mindset of a firm’s management can help or hinder the success of the firm (Nadkarni et al, 2011). This research shows that the breadth or depth of a manager’s domestic mindset has different implications depending on whether the manager is confronted with a global, multi-domestic, or transnational industry (Nadkarni et al, 2011). Certainly experience can make a difference in a firm’s selection of mode of international entry and potential for success. Padmanabhan and Cho (1996) found that the more extensive experience within international companies, the more capable the firm is of managing a wholly owned subsidiary overseas. Seeking to reconcile previous findings of straight-line, inverted-shaped, and U-shaped performance curves in internationalization, Contractor et al (2003) found that for the knowledge-based service sector (as opposed to the capital-intensive service sector) companies follow a sigmoid (s-shaped) performance pattern. Thus, performance initially declines due to initial start-up inefficiencies, followed by an up swing in performance as companies reap the benefits of scale economies and experience, after which performance declines due to over-internationalization. In addition, empirical research by Brouthers and Nakos (2004) indicates that experienced Small and Medium-sized Enterprises (SME’s) are more inclined to internationalize with higher levels of control and risk. From these studies, we propose:

Hypothesis 4: International experience is positively correlated with the selection of higher levels of international market entry.

Hypothesis 7: International experience moderates the relationship between perceived international risk and international market entry mode selection. Manufacturers’ international experience has been shown to correlate highly with business performance. Firms with more
international experience, operational knowledge, and the ability to manage risk, should adopt a higher-risk/higher-control strategy to increase operating performance (Evans, Mavondo, & Bridson, 2008). Firms with extensive experience in international business decision-making perform better in cross-border operations while lack of experience induces a low cost/low control structure (Xu & Yao, 2006). Some of a firm’s outcomes can also be attributed to the personality characteristics of upper management (Hambrick & Mason, 1984). A CEO’s international experience and corporate performance are positively correlated, especially in the enterprise with a higher degree of internationalization (Herrmann & Datta, 2002). Further, Xiao, Chen, and Lin (2009) found there was a significant positive relationship between international experience and international performance of Chinese private enterprises. Therefore:

Hypothesis 5: International experience is positively correlated with performance.
Hypothesis 8: International experience moderates the relationship between international market entry mode selection and international performance.

Data Collection and Measures

Data used in this study were obtained through questionnaires mailed to 1,612 managers of 420 Chinese international enterprises located in the more developed provinces of Guangdong, Zhejiang, and Jiangsu. The sample included both manufacturing and service industries. The size of the firm varied from small and medium-sized firms to major enterprises. A total of 532 questionnaires were returned, of which 69 were deemed unsuitable for use, resulting in 463 usable surveys or an effective response rate of 28.72 percent.

There are three variables measuring perceived international risk (PIR): perceived international risk at the macro-level, perceived international risk at the meso-level, and perceived international risk at the micro-level (weighted mean). Four variables represented international experience: number of years of international operation for the firm, number of years of international operation by the manager, number of countries managed, and number of countries explored or participated in by the manager. All items were measured on a five-point scale.

Reliability and Validity Analysis

We first examine each component dimension’s internal consistency, unidimensionality, and convergent validity (Churchill, 1979). Results indicated construct reliabilities above 0.815 for both Perceived International Risk and International Experience. Thus, all items were reliable measures of their underlying dimension (Robinson, Shaver, & Wrightsman, 1991). Bollen (1990) stated that unidimensionality is initially established when measured items load above 0.50 on their respective constructs. Table 1 indicates that loadings of the items ranged from 0.653 and 0.752 on their respective dimensions, providing evidence of unidimensionality. According to Fornell and Lacker (1981), convergent validity is supported if the average variance extracted (AVE) estimates exceed 0.50. In Table 1, the AVE of the two latent variables is 0.713 and 0.734, thus, the convergent validity of the scale is deemed acceptable.

In terms of the selection of international market entry mode, we use a five-point scale ranging from low cost/low control to high cost/high control (i.e., from export [1] to green-field
investment [5]). Manufacturing enterprises were coded as one and service businesses are coded as zero. The size of the enterprise was used as a control variable and we chose the number of employees as a representative measure, using a ten-point scale. The percentage of the firm’s international sales represented international performance using a five-point scale. Table 2 shows the distribution of the respondent companies in each category.

To determine the type and direction of relationships in the proposed conceptual model, a series of 12 regressions were utilized as proposed by Baron and Kenny (1986). These results are summarized in Tables 3 and 4. Table 3 reviews the results for the dependent variable international performance; while Table 4 summarizes the results for market entry mode as the dependent variable for the mediator/moderator tests (Baron & Kenny, 1986). In each case additional model variance is explained through the addition of predictor and moderator variables.

FINDINGS
The control variables of industry type and the enterprise size did not significantly affect International Performance (IP). These results are contrary to some prior research. However, as indicated by Zhou at al (2007), many Chinese export firms were initially ‘born global’ i.e. created as internationalized companies. Since most of these companies were forced into international expansion through increased demand, as a group, industry type, or size may not influence results obtained in relatively unknown markets.

Perceived international risk (PIR) negatively affects the international performance (IP) of Chinese enterprises as the regression coefficient demonstrates in models two, four, seven, and eight. These results support hypothesis one. Facing a more complex international environment, uninitiated enterprises are making decisions based on greater uncertainty leading to lower international performance. Perceived international risk (PIR) also has a negative relationship on selection of international market entry mode (MEM); managers facing greater uncertainty tend to risk less by selecting less involved modes of market entry. This result supports hypothesis two.

Selection of international market entry mode (MEM) positively affects the international
performance (IP) of enterprises. In models three, four, six, seven, and eight, there was a significant positive correlation between selection of higher levels of control in international market entry and enterprises’ international performance; the greater the degree of resource commitment and control that enterprises have, the better the achieved international performance. Entry modes with a low degree of control may also be dependent on trading partners with their own degrees of risk. This finding supports hypothesis three.

International experience (IE) positively and significantly affects the selection of international market entry mode (MEM) supporting hypothesis four. Thus, the greater the international experience enterprises have, the more likely they are to select a foreign market entry mode with greater risk and reward. Further, the greater the prior international experience (IE), the stronger the firm’s international operations capability and the better their international business performance. With the accumulation of international experience and understanding of local consumer trends, government policy, international supply chains, and international rules in foreign markets, enterprises can avoid part of the uncertainty, lower their costs, and improve the enterprise’s international performance. This finding supports hypothesis five.

To test for moderating effects when the dependent variable is international performance (IP), model eight contains all control, independent, and interaction variables. The interactions are significant, and, thus, the moderator hypotheses (six and eight) are supported (Baron & Kenny, 1986). International experience (IE) is shown to have a significant moderating effect on international performance (IP). That is, the more international experience enterprises have, the better their international performance. International experience (IE) also is a significant positive moderator of the relationship between the foreign market entry mode and performance. Thus, prior experience also contributes to superior management of the foreign enterprises and partnership formation.

When market entry mode is the dependent variable, we followed the same procedure in model 12 to test the moderating effect of international experience (IE) on the relationship between perceived international risk (PIR) and market entry mode (MEM). The interaction is significant, supporting hypothesis seven. International experience (IE) has a significant moderating effect on selection of foreign market entry modes. This was found to be a positive effect, suggesting that international experience reduces the perceived risk of foreign market participation and allows for increased levels of investment and control. The more international experience enterprises have, the smaller the perceived international risk is, and the firm is more likely to choose a higher degree of resource commitment and control in their market entry mode.

---
Insert Table 5. Summary of Hypotheses about here.
---

**Mediation**

In the conceptual model, we suggest that market entry mode (MEM) mediates the relationship between perceived international risk (PIR) and international performance (IP). Baron and Kenny (1986) recommend three tests to determine the existence of a mediating effect. Following this procedure; first we regressed the mediator (MEM) on the independent variable (PIR); secondly, we regressed the dependent variable (IP) on the independent variable (PIR); thirdly, we regressed the dependent variable on both the independent variable and on the mediator. In model nine, perceived international risk (PIR) is seen as significantly
affecting market entry mode (MEM). In model two, perceived international risk (PIR) is shown to significantly affect the international performance (IP) of the firm. In model four, when both perceived international risk (PIR) and market entry mode (MEM) predict international performance (IP), the independent variable’s (PIR) effect on the dependent variable (IP) is reduced significantly confirming the presence of a mediating variable (MEM).

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Insert Table 6. Mediation Effect Summary about here.

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Conclusion and Research Limitations

This study demonstrates there is a complex and dynamic relationship among Perceived International Risk (PIR), International Experience (IE), international Market Entry Mode (MEM), and International Performance (IP). In this sample, perceived international risk limits the enterprises’ choice of market entry mode which, in turn, reduces firm performance (IP). Additionally there is a direct inverse relationship between perceived international risk (PIR) and international performance (IP). Conversely, international experience (IE) mitigates the effect of perceived international risk (PIR) on international performance (IP) and selection of international market entry mode (MEM). Thus, the recruitment and training of international expertise becomes an important approach for enterprises to achieve improved performance.

In the effort to assess the empirical inter-relationships of perceived risk, international experience, market entry mode, and international performance, our instrument was necessarily simplified. Larger, more inclusive measures of perceived risk, international experience, and firm financial performance may yield more definitive insights into the relationships of these variables. Managers of Chinese international enterprises formed the sample of this study; the generalizability of the results may be thus be limited. Future studies should continue to focus on the mediating and moderating roles of critical variables to improve management decision-making in the internationalization process.

Figure 1 Conceptual Model and Hypotheses
### Table 1  Results of Reliability and Validity Analysis

<table>
<thead>
<tr>
<th>Latent Variables</th>
<th>Observation variables</th>
<th>Standardized factor loading</th>
<th>p value</th>
<th>AVE value</th>
<th>Cronbach's alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived International Risk (PIR)</td>
<td>Perceived international risk, macro-level</td>
<td>0.621</td>
<td>0.000</td>
<td></td>
<td>0.713</td>
</tr>
<tr>
<td></td>
<td>Perceived international risk, meso-level</td>
<td>0.524</td>
<td>0.001</td>
<td>0.713</td>
<td>0.815</td>
</tr>
<tr>
<td></td>
<td>Perceived international risk, micro-level</td>
<td>0.378</td>
<td>0.000</td>
<td></td>
<td></td>
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<tr>
<td>International Experience (IE)</td>
<td>Number of years of international operation for enterprise</td>
<td>0.751</td>
<td>0.000</td>
<td></td>
<td>0.734</td>
</tr>
<tr>
<td></td>
<td>Number of years of international operation for manager</td>
<td>0.752</td>
<td>0.000</td>
<td></td>
<td>0.836</td>
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<tr>
<td></td>
<td>Number of countries managed by manager</td>
<td>0.673</td>
<td>0.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number of countries explored or participated in by managers</td>
<td>0.653</td>
<td>0.000</td>
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### Table 2  Company Characteristics

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<thead>
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<th>Number of Employees</th>
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<td>≤ 50</td>
<td>43</td>
<td></td>
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<tr>
<td>51 - 100</td>
<td>44</td>
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<tr>
<td>201 - 500</td>
<td>107</td>
<td></td>
<td></td>
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<tr>
<td>501 - 1,000</td>
<td>84</td>
<td></td>
<td></td>
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<tr>
<td>1,001 - 1,500</td>
<td>38</td>
<td></td>
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<td>1,501 - 2,000</td>
<td>41</td>
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<tr>
<td>≥ 2,000</td>
<td>31</td>
<td></td>
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<td></td>
<td>463</td>
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<td></td>
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</table>

<table>
<thead>
<tr>
<th>Percentage of Total Firm Sales from International Sales and Operations</th>
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<td>≤ 10%</td>
<td>47</td>
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<tr>
<td>11% - 30%</td>
<td>56</td>
<td></td>
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<tr>
<td>31% - 50%</td>
<td>69</td>
<td></td>
<td></td>
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<td>51% - 80%</td>
<td>74</td>
<td></td>
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<td>81% - 100%</td>
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<td></td>
<td>463</td>
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</table>
Table 3  Parameter Estimation of Regression Models (Dependent Variable: International Performance)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
<th>Model 6</th>
<th>Model 7</th>
<th>Model 8</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>coef.</td>
<td>Std. error</td>
<td>coef.</td>
<td>Std. error</td>
<td>coef.</td>
<td>Std. error</td>
<td>coef.</td>
<td>Std. error</td>
</tr>
<tr>
<td>Industry Attributes (IA)</td>
<td>0.01</td>
<td>0.2</td>
<td>0.2</td>
<td>0.08</td>
<td>0.2</td>
<td>0.02</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Enterprise Size (ES)</td>
<td>0.11</td>
<td>0.3</td>
<td>0.3</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Perceived International Risk (PIR)</td>
<td>2.52* 0.4</td>
<td>1.51 0.4</td>
<td>1.32* 0.4</td>
<td>0.55 0.3</td>
<td>0.58 0.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Experience (IE)</td>
<td>1.38** 0.5</td>
<td>0.23* 0.4</td>
<td>0.39* 0.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Entry Mode (MEM)</td>
<td>0.53** 0.7</td>
<td>0.63** 0.2</td>
<td>0.54** 0.2</td>
<td>0.55** 0.2</td>
<td>0.76** 0.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IE × PIR</td>
<td>-</td>
<td>-</td>
<td>0.48 0.3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IE × MEM</td>
<td>7.40** 12.91**</td>
<td>10.31** 11.23**</td>
<td>12.56** 10.01**</td>
<td>16.04** 17.03**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.15</td>
<td>0.20</td>
<td>0.21</td>
<td>0.23</td>
<td>0.25</td>
<td>0.26</td>
<td>0.32</td>
<td>0.40</td>
</tr>
<tr>
<td>ΔR²</td>
<td>0.15</td>
<td>0.05</td>
<td>0.01</td>
<td>0.08</td>
<td>0.10</td>
<td>0.01</td>
<td>0.07</td>
<td>0.25</td>
</tr>
</tbody>
</table>

(* p<0.05,  ** p<0.01, only non-standardized regression coefficients for dummy variables are listed.)

Table 4  Parameter Estimation of Regression Models (Dependent Variable: Market Entry Mode)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 9</th>
<th>Model 10</th>
<th>Model 11</th>
<th>Model 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived</td>
<td>-</td>
<td>0.43</td>
<td>-</td>
<td>-1.03*</td>
</tr>
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</table>
### Table 5 Summary of Hypotheses

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>coef.</th>
<th>p value</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Perceived International Risk (PIR) $\rightarrow$ International Performance (IP)</td>
<td>-2.52</td>
<td>0.00</td>
<td>significant, supported</td>
</tr>
<tr>
<td>2: Perceived International Risk (PIR) $\rightarrow$ Market Entry Mode (MEM)</td>
<td>-1.35</td>
<td>0.00</td>
<td>significant, supported</td>
</tr>
<tr>
<td>3: Market Entry Mode (MEM) $\rightarrow$ International Performance (IP)</td>
<td>0.53</td>
<td>0.00</td>
<td>significant, supported</td>
</tr>
<tr>
<td>4: International Experience (IE) $\rightarrow$ Market Entry Mode (MEM)</td>
<td>2.12</td>
<td>0.00</td>
<td>significant, supported</td>
</tr>
<tr>
<td>5: International Experience (IE) $\rightarrow$ International Performance (IP)</td>
<td>1.38</td>
<td>0.00</td>
<td>significant, supported</td>
</tr>
<tr>
<td>6: International Experience (IE) $\times$ Perceived International Risk (PIR) $\rightarrow$ International Performance (IP)</td>
<td>0.48</td>
<td>0.00</td>
<td>significant, supported</td>
</tr>
<tr>
<td>7: International Experience (IE) $\times$ Perceived International Risk (PIR) $\rightarrow$ Market Entry Mode (MEM)</td>
<td>0.27</td>
<td>0.00</td>
<td>significant, supported</td>
</tr>
<tr>
<td>8: International Experience (IE) $\times$ Market Entry Mode (MEM) $\rightarrow$ International Performance (IP)</td>
<td>0.42</td>
<td>0.01</td>
<td>significant, supported</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Additional Tests</th>
<th>coef.</th>
<th>p value</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry Attributes (IA) $\rightarrow$ International Performance (IP)</td>
<td>0.04</td>
<td>0.09</td>
<td>not significant, rejected</td>
</tr>
<tr>
<td>Enterprise Size (ES) $\rightarrow$ International Performance (IP)</td>
<td>0.11</td>
<td>0.17</td>
<td>not significant, rejected</td>
</tr>
<tr>
<td>-----------------------</td>
<td>------------------------</td>
<td>-----------------------------------</td>
<td>---------------------------</td>
</tr>
<tr>
<td>Direct effect to International Performance (IP)</td>
<td>0.53</td>
<td>-2.52</td>
<td>1.38</td>
</tr>
<tr>
<td>Direct effect to selection of Market Entry Mode (MEM)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Entry Mode (MEM) effect to International Performance (IP)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mediate effect/direct effect</td>
<td>0.29</td>
<td>0.81</td>
<td>0.29</td>
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REFERENCES


Issues and Challenges in the Rehabilitation of Abandoned Housing Projects of the Liquidated Housing Developer Companies in Malaysia: THE POSITION OF THE SECURED CREDITOR CHARGEES VIS-À-VIS THE PURCHASERS

ABSTRACT

One of the main problems in the Malaysian housing industry is the abandoned housing projects. It is evident, the Malaysian laws are inadequate to protect the interests of the stakeholders especially the purchasers in abandoned housing projects. This paper discusses the liquidation law and issues in one of the abandoned housing projects in Malaysia, particularly the position of the secured creditor and the purchasers. The analysis of this paper finds that the secured creditor of the liquidated housing developer company enjoys priority over the assets and moneys of the liquidated housing developer company even at the expense of the aggrieved purchasers’ interests. Due to this, the rights of the purchasers are marginalized. In this paper also, the author suggests certain proposals to improve the current state of law governing abandoned housing projects in Malaysia in order to preserve the interests of the stakeholders.

Keywords: Malaysian Liquidation Law; Abandoned Housing Projects; Liquidated Housing Developer Company; Priority Of The Secured Creditor Chargee; Aggrieved Purchasers; Grievances

INTRODUCTION

It is common phenomena that when housing developer companies abandoned their housing development projects, the fates of the aggrieved purchasers are not fully protected by the housing law in Malaysia. As a result, the purchasers suffer many troubles including not being able to occupy the housing units they purchased and they have to suffer other pecuniary and non-pecuniary losses such as the burden of paying monthly installment to their end-financiers until completion. This is unfair to the purchasers, while at the same time, the defaulting housing developer companies after having received benefits, escape any liability.

Likewise, it is also the contention of the author that, when housing developer companies are wound up and abandon their housing development projects, the fates of the aggrieved purchasers are not protected by the Malaysian liquidation law. The author views that the liquidation law in Malaysia only protect the interests of the creditors and other persons as enumerated in section 192 of the Companies Act 1965 (‘CA’), not the aggrieved purchasers in abandoned housing projects. Thus, the rights and interests of the aggrieved purchasers in the abandoned housing projects of the liquidated housing developer companies are not well taken care and preserved by the liquidation law in Malaysia.
**Objective**

The purpose of this paper is to highlight the position of the secured creditor chargee vis-à-vis the purchasers in an abandoned housing project in Malaysia, the arising issues and grievances. This is further analyzed through a legal approach and its relevant provisions which deal with these parties and the issues. The data generated for this paper was taken from the files of the Department of Insolvency of Malaysia, the Land and District Office and the Ministry of Housing and Local Government as well as from interviews with the key persons and from the author’s personal observations. The abandoned housing project that is the subject of analysis of this paper is Phases 1A, 1B and 2 of Taman Lingkaran Nur, KM 21, Jalan Cheras-Kajang, P.T No. 6443, H.S (D) 16848, Mukim of Cheras, District of Hulu Langat, Selangor (‘the said project’). Once the issues and problems have been identified, the author will suggest certain practical suggestions which can deal sufficiently with the issues faced by the parties involved.

**SUMMARY OF THE PROJECT**

The said project was launched in 1988 by a developer--Saktimuna Sdn. Bhd. (‘Saktimuna’) with a total acreage of 67.94, alienated from the State Government of Selangor. Originally, the developer was responsible for the development of 269 units of single-storey-terrace-houses, 40 units of double-storey-terrace-houses, 150 units of low-cost-houses, 160 units of low-cost-flats, 9 units of low-cost-shop-houses, 16 units of light-industrial-units (30’ x 100’), 55 units of light-industrial-units (25’ x 80’), a unit of public hall, one unit of TNB electrical power station, biosoil system and petrol station, etc. Initially, this purported development project was divided into three (3) phases--Phase 1, Phase 2 and Phase 3. Only a portion of Phase 1, viz Phase 1A (Phase 1 was divided into Phase 1A and 1B) had been developed by the developer. However, this phase was abandoned midway. Its construction stopped at the stage of 60% completion.¹

The said project was a result of a privatization project between Saktimuna Sdn. Bhd. (the defaulting developer) and the Selangor State Government. The latter was the owner of the project land, who later granted and alienated the land to the defaulting developer to develop it into a housing project subject to certain terms and conditions. However, in the course of the development of the project, the project failed and was later abandoned as the defaulting developer (Saktimuna) faced serious financial problems due to insufficient sales and revenues generated through sales and their inability to meet the development and construction costs, which persisted from 1992 until early 2000.²

The project was subsequently taken over by one Syarikat Lingkaran Nur Sdn. Bhd. (‘SLN’)--the first rehabilitating party with the consent of the State Government of Selangor and the defaulting developer. Unfortunately, SLN also suffered the same fate, i.e it was also unable to complete the project due to financial constraints.³

On the instruction of MHLG and numerous appeals from the aggrieved purchasers, Syarikat Perumahan Negara Berhad (‘SPNB’) had taken over a part of the project, i.e Phase 1A, from SLN, with the consent of the Selangor State Government and Saktimuna. Being a government linked company (GLC), SPNB obtained funds from the Ministry of Finance (‘MOF’) to revive the project. The rehabilitation succeeded. However, this rescue was a government social duty, in that, the available moneys in the hands of the end-financiers were
insufficient to meet the rehabilitation costs. MOF had to top-up funds to ensure the completion of the rehabilitation. In the course of the rehabilitation, there were several problems faced by SPNB, and one of them was the refusal and failure of certain purchasers to give consent to SPNB to carry out the purported rehabilitation works. Thus, not all the units in Phase 1A had been fully rehabilitated and obtained Certificate of Fitness for Occupations (CF). The remaining phases (Phase 1B and 2) have as yet been revived. At the time of writing this paper, these phases are still in the course of negotiation and study for rehabilitation, both by Saktimuna, the Official Receiver (‘OR’) (being the Kuala Lumpur Department of Insolvency or in Bahasa Malaysia Jabatan Insolvensi Malaysia Cawangan Kuala Lumpur (‘KL JIM’)) and the new chargee (Idaman Wajib Sdn. Bhd). On the other hand, Phase 3 of the project had been completed through a joint venture between Tanming Sdn. Bhd and SLN, and known as Taman Cheras Idaman.4

The developer company (Saktimuna) was wound up on 11th March, 2005 upon the winding up application of the Inland Revenue Board (Lembaga Hasil Dalam Negeri—‘LHDN’) for its failure to settle the corporate tax to LHDN. On 11th March, 2005, the OR (KL JIM) was appointed as the provisional liquidator for the developer company. The OR was also appointed as the liquidator for the developer company on 12th May, 2009.5

Phases 1B and 2 at Taman Lingkaran Nur were vested in one Singesinga Sdn. Bhd (‘Singesinga’) by the chargee lender—Messrs CIMB Bank Berhad (‘CIMB’) in settlement of the outstanding unpaid loan of Saktimuna to the chargee lender (CIMB), through a court’s vesting order. But surprisingly, this had not been informed to the OR (as the liquidator) and the OR had not given any consent for such a legal action (application to vest the rights and interests of CIMB in Phases 1A and B to Sinesinga in settlement of all the outstanding loans of Saktimuna to CIMB).6

As at the end of 2012, there is no plan to rehabilitate Phase 1B. However, in respect of Phase 2, there is an interested buyer to purchase the land in settlement of the redemption sum as prescribed by the new chargee (Sinesinga). This interested buyer is Idaman Wajib Sdn. Bhd (‘IWSB’). In this project (Phases 1A, 1B and 2) the OR as the liquidator did not rehabilitate the project but only coordinate the stakeholders. As at 31 December, 2010 there was no rehabilitation or resumption of the housing development project for Phases 1B and 2 at Taman Lingkaran Nur.7

Rehabilitation Of Phases 1b And 2

As at 31 December, 2010 there was no rehabilitation of the housing development project for Phases 1B and 2 at Taman Lingkaran Nur. Nonetheless as mentioned above, the recent news is that there is a party who is interested to buy the whole housing development area at Phase 2 and settle all the damages of the Phase 2’s purchasers, namely Messrs Idaman Wajib Sdn. Bhd (IWSB). IWSB is the developer responsible for the housing development project adjacent to Taman Lingkaran Nur. IWSB proposed to purchase the said secured land (Phase 2 with 107 lot titles charged to Sinesinga) to Sinesinga at the price of RM (Malaysian Ringgit) 2.5 million. IWSB would also refund the 10% deposits to Phase 2’s purchasers which amounted to RM 746,507.00. In addition IWSB would be liable to settle the outstanding quit rent for the 107 lots amounting to RM 144,450.00 and the assessment rates of the Majlis Perbandaran Kajang – Kajang Municipal Council (‘MPKj’).8

It should be noted that, prior to the offer made by IWSB, SPNB was assigned by the MHLG to carry out rehabilitation of Phase 2. SPNB had also offered the chargee creditor--CIMB for
a price of RM 1.5 million to purchase Phase 2 and redeem all the outstanding loans still unpaid by Saktimuna Sdn. Bhd. However CIMB rejected this offer. According to SPNB the outstanding loan unpaid by Saktimuna as at 11 May, 2009 to CIMB was RM 3,967,565.09 including interest. CIMB had attempted to sell off the said Phase 2 by way of public auction in June 2008 but this was aborted due to there being no bidders. Thus, bearing on this fact – the exorbitant redemption sum which needed to be settled coupled with the exorbitant costs to rehabilitate Phase 2, SPNB had to abort their intention to rehabilitate Phase 2.9

As at 15 April, 2008, Phase 1B which consisted of 52 units had been fully sold to purchasers. The completion stage for Phase 1B was between 0% to 35%. Phase 2, which consisted of 108 units, 98 of the units had been sold to public. However these 98 units had not been constructed at all (i.e still being a barren land).

Problems In The Rehabilitation Of Phases 1A And 2 Of The Project
In the course of rehabilitation of the abandoned housing project by the rehabilitating parties (SLN and SPNB), there were many problems and issues, among them namely are:

There is no provision in the Companies Act 1965 (CA) providing a clear duty on the liquidator to carry out rehabilitation of abandoned housing projects for the benefit of the aggrieved public purchasers (stakeholders); and,

There is no provision in the CA which provides the aggrieved purchasers with protection to have their abandoned housing project revived.

LEGAL ANALYSIS
This paper will analyze in legal term the position of the secured creditor chargee and the purchasers once a housing developer company is subject to liquidation administration. The objective of the analysis is look at the extent to which the rights and interests of the secured creditor chargee as well as the purchasers are protected. It also will address the issues and problems plaguing these parties. Further, this paper will suggest certain legal approaches to cushion the problems faced by these parties in the liquidation administration.

Following the above, a question can be raised: insofar as Taman Lingkaran Nur is concerned, whether the rights of the secured creditor chargee in the secured land (Phase 2) override the rights of the OR as the liquidator in respect of collecting and disposing all the assets of the wound up company to settle the secured creditor/chargee and other unsecured creditors’ debts?

In the instant case study there are two (2) issues involving the act of the chargees (CIMB and Sinesinga) in dealing with the secured property (the Phase 1B and Phase 2 lands), viz:

The act of CIMB vesting all their rights and interests in the secured property (Phase 1B and Phase 2) of the project to Sinesinga through court’s order without obtaining consent or informing the OR (being the Department of Insolvency of Kuala Lumpur), the judgment debtor chargor and the aggrieved purchasers of their (CIMB) intention or at the application for the vesting order should also involve these interested parties (the OR, the judgment debtor chargor and the aggrieved purchasers). Is this act not against section 223 (Avoidance of dispositions of property, etc) and 224 (Avoidance of certain attachment, etc.) of the CA?; and, The act of Sinesinga in attempting to sell off the secured property (Phase 2) below market value to a third interested purchaser (IWSB) also without obtaining consent from or involving the OR, the judgment debtor chargor and the aggrieved purchasers. Is this act also
not against section 223 (Avoidance of dispositions of property, etc) and 224 (Avoidance of certain attachment, etc.) of the CA?

According to the government valuation, the land (Phase 2 being the security to the loan granted by the first chargee – CIMB Bank Berhad) was worth more than RM 4.9 million. However, Sinesinga (as the new vested chargee) agreed to sell the land at the price of RM 2.5 million as the full settlement and redemption of the debts owing by Saktimuna. Nevertheless, in the opinion of the author, if the land is sold below market value, this will prejudice the rights of the chargor (Saktimuna) who is entitled to get the highest possible price for the land. The rationale of obtaining the highest price is for the benefit of the chargor (Saktimuna) in that the balance proceeds can be used to settle off the debts of the Inland Revenue Board (IRB), pay off the OR’s fees, settle the claims and reimburse for the losses suffered by the aggrieved purchasers (Phases 1A, 1B and 2) and/or finance the rehabilitation scheme of the abandoned units for the benefit of the stakeholders (especially the purchasers).

Similar contention is also made regarding the attempt by Sinesinga (as the new chargee) to sell the charged land by way of a private treaty to IWSB using below market price.

Section 292(1) of the CA provides that no unsecured and other debts can prevail over the secured debts. It means that, the proceeds from the winding up process shall be used to settle the listed debts, according to priority, as prescribed under section 292(1) of the CA over other types of unsecured debts. Nonetheless the secured debts are excluded from the operation of section 292 of the CA (Director of Customs, Federal Territory v Ler Cheng Chye (Liquidator of Castwell Sdn Bhd, in liquidation) [1995] 2 MLJ 600). This means that secured debts cannot be dealt with by the liquidator. Only the chargees can deal with the secured debts by way of foreclosure or otherwise. Thus, looking back at the issue in Taman Lingkaran Nur’s case, it is clear that the liquidator (the OR) does not have any power over the charged land and its disposal. Only the chargees—CIMB and Sinesinga, have the absolute right to deal with the charged land including to apply to the court for an order for sale and the proceeds realized from the sale could be used to settle off the secured debts. This situation (the absolute right of the chargee) may become a lacuna in the law and inequitable to the judgment debtor/wound up housing developer company (Saktimuna) as the charged land was sold below market value to the prejudice of the judgment debtor (Saktimuna) and the aggrieved purchasers. Further, the liquidator has not even attempted to prevent the selling of the charged land below the market value, on the ground of equity and public interests. It is re-emphasized here that if the charged property was sold at market value, the proceeds realized from the sale can be used to settle off the judgment creditor’s (Inland Revenue Board--LHDN) debts and to pay compensation of the aggrieved purchasers or it can be used to finance the rehabilitation, to a certain extent, thus lessening the problems and burden of the aggrieved purchasers and the rehabilitating parties.

A secured creditor need not prove his or her debt in a winding up and wait for payment with other unsecured creditors. Instead, on default, a secured creditor has the right to realize the secured assets. Thus, to the extent of the amount realized, a secured creditor is unaffected by a winding up. The question of who is a secured creditor is governed by the Bankruptcy Act by virtue of section 291(2) of the CA. In the case of companies, its secured creditors include debenture holders who have fixed or floating charges over particular assets. Generally, secured creditors are paid ahead of unsecured creditors. However, secured creditors may prove their debts where the debts exceed the value of the property secured. When secured
creditors prove their debt, they lose their security and rank equally with the unsecured creditors. 10

Be that as it may, the chargees (CIMB and Sinesinga), it is submitted, are still subject to the provisions of sections 223 and 224 of the CA (i.e. to obtain the court’s order, including consent from the OR), before they can vest or sell off the secured property. Their failure to pay heed to the requirements under these sections may warrant nullity of their transactions (vesting order and sale), as these transactions are detrimental to the interests of the chargor borrower (Saktimuna) and other eligible stakeholders (such as aggrieved purchasers and unsecured creditors). In the opinion of the author, despite the fact and the law that CIMB can invoke section 216 of the National Land Code (‘NLC’) to vest the said charged land in Sinesinga (as the transferee), CIMB should be beware and circumspect that such a transaction (vesting order sale) could prejudice the right of the chargor (Saktimuna) and that the price paid by Sinesinga in the vesting order transaction was below market value. It is opined the vesting order and the transfer to Sinesinga might amount to an unconsciouable transaction, inequitable and unfair as against the chargor (Saktimuna). In this respect, it is opined, the OR or the chargor or the aggrieved purchasers should intervene and/or apply to the court to nullify and set aside the vesting order sale and request CIMB as the chargee and transferee to apply the true market value of the said secured land before the said secured land be transferred to Sinesinga (transferee). This is to protect the rights and interests of the chargor and the purchasers in the abandoned housing project.

In another respect can the chargee (CIMB) apply section 216 of the NLC to transfer the said secured land to Sinesinga by way of court’s vesting order without resorting to the law and procedure to enforce charge under the NLC? In the opinion of the author, CIMB as the chargee is obliged to sell the charged land by way of a judicial sale governed by the NLC. This is the law expounded in Kimlin Development Sdn Bhd v Bank Bumiputra (M) Bhd [1997] 2 MLJ 805 (Supreme Court). In other words, the chargee (CIMB) could not contract out the provisions under the NLC relating to the judicial sale of the charged land by way of invoking section 216 of the NLC or any private treaty in order to circumvent the law on charge action. Further the court in Kimlin held that provision under section 223 of the CA must be observed before the chargee sells the charged land if the judgment debtor borrower is subject to a winding up order.

In the opinion of the author, section 216 of the NLC is only appropriate to be used in bona fide, private and direct transactions for example in inheritance land transfer, not involving dynamic and diverse interested parties and public interest/right such as that happened in this case (Taman Lingkaran Nur) where the transaction of the charged land might affect the interests and rights of the chargor (Saktimuna) and the aggrieved purchasers.

Similar principles as established in Kimlin were also adopted by the court in Melatrans Sdn Bhd v Carah Enterprise & Anor [2003] 2 MLJ 193 (FC).

However in the recent case--Lim Eng Chuan Sdn. Bhd v United Malayan Banking Corp & Anor [2011] 1 MLJ 486 (Court of Appeal at Putrajaya), the court in majority (Low Hop Bing and Zaharah Ibrahim JJCA) allowed the secured creditor to sell the charged land (first party legal charge) to a third party without having any obligation to resort to the provisions under the NLC for a judicial sale. The secured creditor relied on the Power of Attorney’s (PA) terms in the deed of debenture being the second security document which gave them a right and power to sell by way of private treaty to any interested purchaser of the secured land.
The court held that, the right given under the PA was sufficient enough for the chargee (secured creditor) to sell the charged land and absolved the chargee (secured creditor) from complying the rigid procedure for judicial sale in the NLC. The court also concurred in majority that the chargee (secured creditor) need not obtain any court’s approval pursuant to section 223 of the CA as the borrower company (chargor) was also subject to a winding up order. Thus, by the existence of the PA in the deed of debenture, the right of the chargee to sell the charged land by way of a private treaty is absolute and prevails over the provisions of the NLC (for enforcement of charge) and the CA (the winding up provisions).

Low Hop Bing JCA also held similar view. He held that the PA clause gives the chargee the right to sell the charged land by way of a private treaty without having to be subject to a judicial sale under the NLC. His Lordship rejected the judgment of the then Supreme Court in *Kimlin*, which held that no power of sale of land can be conferred by way of a debenture or power of attorney or otherwise, but proceedings must be brought by the chargee to obtain a judicial sale in accordance with the rigid procedure laid down in the Code. The Supreme Court in *Kimlin* held that any sale of the charged land without using judicial sale prescribed under the NLC is void. The reason as to why Justice Low Hop Bing did not accept the judgment in *Kimlin* was because in *Lim Eng Chuan* case there was a PA giving right to the chargee to sell the charged land upon occurrence of certain events. On the other hand, in *Kimlin* case there was no such a PA giving such purported power and right to the chargee. In *Kimlin*, there was only a right in the debenture which gave a right to the chargee to appoint receiver and manager to deal with the charged land in order to settle off the debts of the judgment debtor chargor. As the facts in *Kimlin* are distinguishable from *Lim Eng Chuan’s*, Justice Low Hop Bing opined that the law as applicable and adopted in *Kimlin* cannot be made applicable to *Lim Eng Chuan*.

In respect of the applicability of section 223 of the CA in *Lim Eng Chuan*, Low Hop Bing JCA said, at page 500 of the case, as follows:

“In my judgment,…section 223 is inapplicable because the bank was exercising its right under a security when the bank sold the land. Our section 223 may be examined together with the equipollent provisions of section 368 of the Companies (New South Wales) Code. In this regard, I find support for my view in *Re Margaret Pty Ltd (in liq); Hamilton v Wespac Banking Corp* (1984) 2 ACLC 709 at pp 710—712 and 714 where Helschm CJ considered section 368, in particular, the phrase ‘any disposition of the property of the company’. The learned CJ of the Supreme Court of New South Wales held that section 368 was not intended to reach out to transactions by which a secured creditor receives assets covered by his security at a time when he was entitled to have them…” (emphasis added).

However, Mohd Hishamuddin JCA, as the minority view, in the instant case disagreed with the majority findings of the court. He opined that once the land is subject to legal charge and registered under the NLC’s provisions, the chargee must apply judicial sale to sell the land. Secondly, the requirement under section 223 of the CA must also be fulfilled before the chargee can sell the charged land, i.e the chargee must get approval of the court before proceeding to sell the charged land. The existence of debenture and PA shall not affect or exempt, in any iota, the mandatory requirement under section 223 of the CA. As regards the requirement to comply with section 223 of the CA, Mohd Hishamuddin (dissenting judgment and as a minority view) put at page 514 of the case as follows:
‘…In my opinion, for the purpose of section 223, it makes no difference whether it was a sale by way of a power of attorney or whether it was a sale by receivers and managers under a debenture. The point is that a sale had taken place or intended to take place. It is immaterial who did the selling and how the sale was done. What matters is that a sale of a property of a company that had been wound up had taken place without the permission of the winding up court.

I must add here that in the present case, had the first respondent made the application to the winding up court for the sale of the lands, then all parties having a direct interest in the lands, such as the liquidator and the creditors, would be entitled to object to the application if any of them had a valid reason to do so. It might very well be that at the end of the day the winding up court grants the first respondent’s application to sell the lands. But the point is that there is a monitoring authority in place in the form of the winding up court, and any party having an interest, and opposing the intended sale, would have had an opportunity of being heard before the proposed sale is carried out. In other words, the right to sell the lands should not be determined unilaterally by the first respondent being a party claiming to be holding the lands as securities.’ (emphasis added).

On the issue as to whether the chargee can absolve from complying the requirement for judicial sale as spelt out in the NLC in order to sell the charged land by way of a private treaty, the same judge stated at pages 220 and 221 of the reported case as follows:

‘…I shall now revert to the facts of the present case, and I shall pose the following pertinent questions: in the present case, was the sale undertaken or effected by the chargee (the lender bank, United Malayan Banking Corp/the first respondent)? Or, was the sale effected or undertaken by the chargor (the appellant/borrower company, Lim Eng Chuan Sdn Bhd)? It is to be recalled that under the debenture a power of attorney had been issued by the chargor in favour of the chargee; and it is to be noted that the sale and purchase agreement with the second respondent (the purchaser, Southern Realty (M) Sdn Bhd) was signed by an officer of the chargee bank as an attorney of the chargor pursuant to the power of attorney, and the chargor was named in the agreement as the vendor. If the sale is regarded as having been undertaken or effected by the chargee then, on the authority of Kimlin and Melatrans, the sale was void as it contravened the National Land Code because the sale was not a judicial sale carried out in accordance with Part 16 of the National Land Code. But, on the other hand, if the sale is considered to have been undertaken or effected by the chargor (with the consent of the chargee) then on the authority of Melatrans, the sale is valid as such a sale need not have to be a judicial sale under the National Land Code. In other words, the sale could be done by way of a private treaty. In the present case, in my judgment, although there is the power of attorney, and that the sale and purchase agreement named the chargor as the vendor, nevertheless, it is unrealistic and unfair to regard the sale as a sale undertaken or effected by the chargor. In the present case, it is the chargee bank who is desirous of enforcing the security and who gave notice to the chargor’s solicitors stating that the bank would exercise its powers to sell the lands under the debenture. It is the chargee bank that subsequently took out the advertisement. It is the chargee bank who gave notice of its intention to sell the
lands to the charger’s directors; and it is the chargee bank that issued a notice to the charger and took physical possession of the property pursuant to cl 6.02(a) of the debenture. Indeed, it was the chargee’s officer who signed the sale and purchase agreement. Furthermore, in the present case, there is no involvement of any intermediary such as a receiver and manager. And an important factor to note is that the relationship between the donor of the power of attorney and the donee of the power of attorney is not merely that of a normal agency. The relationship is deeper than that. In the present case the power of attorney is a power of attorney not for the benefit of their principal, the donor/charger, but for their own benefit to achieve the objective of the debenture arrangement between the donor/charger and the donee/chargee. Therefore, in fact and in law the sale must be deemed to have been effected or undertaken by the chargee rather than by the charger. It was only a legal formality that the charger was named as the vendor in the sale and purchase agreement as the sale was made pursuant to the power of attorney. Since the sale was undertaken or effected by the chargee and not by the charger then legally it should have been effected in accordance with the provisions of the National Land Code pertaining to the charges. In other words, there should have been a judicial sale. Since the sale was not a judicial sale under the Code, therefore, the sale was invalid.” (emphasis added).

In the opinion of the author, Kimlin case and Mohd Hishamuddin’s dissenting judgment in Lim Eng Chuan case are more equitable and appropriate to be applied in Taman Lingkaran Nur’s case. This is because, in Taman Lingkaran Nur, the matter involves public interests and rights – i.e. the charger (Saktimuna) and the aggrieved purchasers. If the transfer/sale were to be made through a judicial sale with the involvement of the OR, the charger or the aggrieved purchasers and that the price of the secured land would use the market value, the public interests might be better served than if the land were to be sold by way of a private treaty, where the market value or better price of the charged land might have been tolerated due to the unilateral business expediency of the chargee, thus unfairly negating the pecuniary and non-pecuniary interests of the charger and the aggrieved purchasers in the abandoned housing projects.

The above contention and finding are made by way of an analogy with the available cases as reported by in law journals. Ironically, there has as yet similar reported case law that have similar facts as that happened in Taman Lingkaran Nur particularly on the issue that the chargee bank (CIMB) had transferred the charged land owned by the liquidated charger debtor company at a below market value price by way of court’s vesting order and involves an abandoned housing project and the aggrieved purchasers. It is the hope of the author that in the near future cases like what have happened in Taman Lingkaran Nur could be dealt by the Malaysian courts in order to give a decisive, clear law and equitable decision on the issues adumbrated above.

CONCLUSION

The act of CIMB to have sold the charged land to Sinesinga through court’s vesting order under section 216 of the NLC, in the opinion of the author, is repugnant to the intent and spirit of the provisions under the NLC which require the sale should be made through a judicial sale, not a private treaty. Further the sale made to Sinesinga used below market price of the land. This prejudiced the rights and interests of the charger Saktimuna and the aggrieved purchasers in the abandoned housing project. Thus, it is opined, the OR, charger Saktimuna and the aggrieved purchasers should have intervened or if intervention is not
possible, to apply to set aside the vesting order and the sale made to Sinesinga or alternatively the vesting order and the sale must use the market value of the charged land. Further, the facts and nature of the vesting sale made by CIMB are dissimilar to the facts and nature as in the reported case law like Kimlin, Lim Eng Chuan, Melantrans and K Balasubramaniam, which may warrant a private treaty sale of the charged land that involves a wound up chargor borrower company. Likewise is the situation of the purported sale by Sinesinga to IWSB, if the sale were to proceed. Thus, it is opined both sales are void and should be set aside as they have contravened the law in the NLC, CA, public interest and equity of the chargor and the aggrieved purchasers in the abandoned housing project.

Based on the instant case study analysis, it is obvious that in liquidation administration, there is unclear and indecisive position on the powers and superiority of the MHLG and the Minister of Housing and Local Government over the creditors, contributories and the members of the liquidated companies, in respect of giving directions to the liquidator to carry out rehabilitation and protect the interests of the purchasers in abandoned housing projects.

Thus, it opined that, it is high time for the Malaysian government to introduce a special legal regime governing rehabilitation of abandoned housing projects. This special legal regime can regulate the rehabilitation, the conduct of the rehabilitating parties in the rehabilitation and protect the interests of the aggrieved purchasers.

The applicant developers must obtain housing development insurance before their applications for housing developer’s license can be approved by the MHLG. The purpose of this insurance is to cover any shortfall of the available funds to finance rehabilitation of their projects if these projects are, inevitably, abandoned midstream. This insurance payment shall be paid in priority to all payments as prescribed under section 292(1) of the CA (section 292(5) of the CA).

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What matters to CSR practices in small and medium sized MNE subsidiaries: A stakeholder perspective

Abstract

This research attempts to investigate key drivers motivating corporate social responsibility (CSR) practices by small and medium sized foreign subsidiaries. By using stakeholder theory and regression analysis, we integrate international business and CSR literature to suggest a research model and identify the factors functioning as catalysts in influencing CSR in local markets. We find that consumers, internal managers and NGOs are primary determinants considerably influencing corporate citizenship behavior particularly in emerging markets. We also believe that our model contributes to current knowledge by filling several research gaps, and our findings offer useful and practical implications not only for local governments but also for multinational enterprises.

Key words: Multinational enterprises, Corporate social responsibility, Stakeholder, Korea

Introduction

As globalization continues to increase in intensity, noticeable changes around the globe are apparent as increases in the volume of international trade among countries, and clear relevant evidence can be found from statistical data announced by the OECD (2012). According to the data, the volume of world trade in goods and services on a yearly basis in 1980 was a total of US$613.82 billion. The figure increased to US$1,091.62 billion in 1990 and US$2,364.62 billion in 2000, respectively. The growing trend did not stop there but has continuously grown and in 2010 it hit US$ 3,894.44 billion. However, we need to note that globalization has not only promoted international trade in the global market, but also functioned as a trigger in inducing a new understanding that foreign direct investment (FDI) is an efficient means for firms to expand internationally. Due to this fact, the outward stock value of FDI transactions grew from US$523.9 billion a year in 1980 to US$1,717 billion in 1990 and US$5,976 billion in 2000, respectively. The record figure for 2010 revealed an amount that was over triple the year 2000 figure as worldwide FDI activities totalled US$20,408 billion (UNCTAD, 2001; 2011). Meanwhile, a wave of both international trade and FDI has not been sweeping only through traditional advanced economies, but also developing and emerging countries have been part of the surge, resulting in the enlargement of multinational enterprises (MNEs).

Another important international issue, coupled with the growth in the number and size of MNEs, has recently come to the forefront. As a recent phenomenon, MNEs have become
What matters to CSR practices in small and medium sized MNE subsidiaries: A stakeholder perspective

aware that their mission should go beyond mere profit generation and their continued success in foreign markets is in part affected by organizational ethical standards (Robertson, 2009; Tixier, 2003). In other words, although they basically seek to maximize their earnings abroad, firms are increasingly acknowledging the value of corporate social responsibility (CSR) and treating CSR as a strategic tool where the potential corporate benefits hinge on the communication of corporate responsibility (Polonsky and Jevons, 2009). Furthermore, some proponents of CSR argue that CSR leads to enhanced brand image and reputation, increased sales and customer loyalty, and increased productivity and quality. Consequently, CSR has often brought about an improvement in corporate financial performance (Mittal, Sinha and Singh, 2008). According to Luo (2006), CSR in the MNE context means the firm’s configuration of social responsibility and social responsiveness, policies, and programs which can promote its relationship with local society. He also suggests that the concept of CSR assumes business and society are interwoven rather than being distinct entities. Thus, society has certain expectations as to what are adequate business attitudes and behaviors. Apart from MNE instinct for profit-making, we argue that satisfaction to the local society’s expectations is particularly crucial for MNEs as it is hard to deny that there exists a skeptical opinion which understands MNEs as exploiters of host countries’ resources, especially in developing and emerging countries. In this vein, CSR is not only important as a strategy, but also signifies an organizational task that in the globalization era, MNEs should meet ethical, social, environmental, and economic demands from local stakeholders (emphasis added) in host economies.

With respect to the strategic implications of CSR for MNEs, there are numerous unanswered theoretical and empirical issues. One of the fundamental but prominent topics that needs to be immediately resolved is the identification of the motivations for CSR in MNE subsidiaries (Rodriguez, Siegel, Hillman and Eden, 2006). The links between CSR and MNE literature are very embryonic, and Husted and Allen (2006) indicate that the lack of scholarly attention partly causes that MNEs often fail to respond effectively to issues on CSR in many host countries. To put it concretely, CSR has attracted a huge amount of attention by those who study Strategic Management (e.g., CSR by local firms in domestic markets), Marketing (e.g., the influence of CSR on customer loyalty), and Financial Economics (e.g., the relationship between CSR and stock market returns), but scholars in International Business (hereafter, IB) have significantly overlooked the strategic importance of CSR. Likewise, Waldman, de Luque, Washburn and House (2006) point out that the diffusion of awareness of the value of CSR practices in the global market has been occurring, but little is known about the factors influencing such practices. Hence, we will attempt to fill this research gap. Although there are in fact welcome exceptions (e.g., Maignan and Ralson, 2002; Lynes and Andrchuk, 2008), most of them have focused on the strategies of MNEs in the developed world (Yang and Rivers, 2009). It is crucial that we understand how MNE subsidiaries approach CSR in emerging markets, so that we recognize the challenges the subsidiaries face in aligning their CSR approaches with local practices. Another hole that needs to be addressed is associated with organizational size in that it is identified as both vital but up to now relatively unexamined. Small and medium-sized enterprises (SMEs) constitute over 90% of the worldwide population of businesses and make significant contributions to employment, wealth creation, investment, innovation and overseas trade (Udayasankar, 2008). Within the limited, but growing, literature on SME ethics, however, extremely scant attention has been paid to the issue of CSR (Worthington, Ram and Jones, 2006). This pre-occupation with larger organizations is all the more amazing when one considers the social and economic importance of smaller firms (i.e., small and medium sized MNE subsidiaries (SMMSs)) to modern international business. This reasoning suggests that we need to gain a better
understanding of the antecedents affecting MNE CSR in emerging countries with researches also putting emphasis in further exploring the relationship between SMMSs and CSR.

**Literature Review and Theory Development**

Although there appears to be broad agreement that MNEs should behave responsibly, there is only limited discussion linking the organization and CSR activities (Polonsky and Jevons, 2009). Clear evidence verifying this situation can be found from Kolk and van Tulder’s (2010) recent commentary arguing that while often mentioned as relevant topics for the study of MNEs, the number of articles trying to connect MNEs and CSR has been very limited so far, and the literature is in its infant stage. Various elements might contribute to the current phenomenon. The main cause of this situation is closely associated with the lack of available data. There are hardly extensive databases providing information particularly on CSR or on the impact of MNEs on the various dimensions of sustainable development which can be used for IB research purposes. In addition, the problem of the lack of large-scale research material is more serious when the issue is applied to SMMSs. As primary data collection is very difficult and time consuming, this seems to be another reason behind the focus on large organizations and the main research foray into developed countries. Given the variation of CSR in the respective national business systems and potential IB opportunities in emerging economies, the latter concern (i.e., previous focus on developed countries) uncovered during the process of literature review should not be ignored. For this reason, the issue of how to motivate MNE CSR, or what factors determine MNE CSR levels, has received relatively limited attention, especially in the emerging market setting (Li and Zhang, 2010).

Developing a clearly defined corporate CSR identity for global organizations is complex, but it is generally defined as the voluntary integration of social concerns in business operations abroad and in their interaction with local stakeholders (Vilanova et al., 2008). Within the CSR perspective, Waldman et al. (2006), subsequently supported by Mishra and Suar (2010), suggest that stakeholder theory helps to understand the dimensionality of CSR values, provides a useful direction in the evaluation of CSR, as well as to offer a new way to organize thinking about organizational responsibilities. Whether driven from corporate ideology or from stakeholder obligations, MNEs encounter a complex set of decisions in regards to how they respond to the CSR issues faced (Polonsky and Jevons, 2009). Thus, firms should consider all stakeholders, which are “groups and individuals who can affect, or are affected by, the achievement of an organization’s mission” (Freeman, 1984, p. 54). According to stakeholder theory, the relationship between the corporation and the stakeholder is mutually interactive, and thus the firm ought to be managed to meet the expectations of all its stakeholders.

The basic instinct of corporations is to maximize shareholders earnings by undertaking actions that increase business profit. However, a variety of stakeholders surrounding firms also prefer to interact with organizations that evince better CSR (O’Shaughnessy, Gedajlovic and Reinmoeller, 2007), which suggests that even when a firm tries to serve its shareholders as a primary concern, its success in doing so tends to be affected by other stakeholders. In this regard, in order to avoid conflicts with stakeholders and effectively carry out relationship-specific investments with them in resources and processes, leading to value creation, firms increasingly need to take corporate stakeholders into account (Udayasankar, 2008). According to Luo (2006), from the MNE standpoint, such an idea started taking shape particularly from the exuberance of globalization with the realization that firms have social responsibilities and social responsiveness towards local economies in which they operate and
MNEs must address social, environmental, and economic demands from their stakeholders. His explanation infers that MNEs have ethical obligations to conduct worldwide business in a way that safeguards the welfare of society and are expected to be society-oriented, having voluntary activities aiming to contribute to the society as a whole (also see Carroll, 1991).

There are a large variety of entities that maintain a “critical eye” on CSR. Broadly speaking, stakeholders forming the connections between the aims and ambitions of the MNEs and the expectations of society consist of primary and secondary stakeholders. Stakeholder theory sheds light on the role of the primary stakeholders by pointing out that organizational survival and success hinges on the organization’s ability to generate sufficient wealth, value, or satisfaction for its primary stakeholders, though not exclusively for shareholders (Maon, Lindgreen and Swaen, 2009). Those whose direct relationships are crucial for the organization to realize its mission in producing goods or services are perhaps 1) consumers, 2) internal managers and 3) business collaborators (e.g., investors, partners and suppliers). Secondary stakeholders are comprised of social and political actors functioning as supporters of the mission by providing their tacit approval of the MNE’s activities, thereby making them acceptable and giving the business credibility. Such secondary stakeholders may include 1) government, 2) media, 3) local community, and 4) non-governmental organizations (NGOs) (Maon, Lindgreen and Swaen, 2009).

The next section will discuss potential stakeholders motivating CSR activities by SMMSs in foreign markets.

**Primary Stakeholders**

*Consumers*: Among all the stakeholders, one important group that appears to be particularly influential for firms to initiate CSR activities is perhaps consumers. According to evidence found by Du and Sen, (2010), consumers in the U.S.A, for example, tend to switch from one brand to another (price and quality being equal) if the other brand is associated with a proactive corporate citizenship. In addition, 85% will consider boycotting a firm’s products or services by switching to another firm’s offerings in the case where consumers think that the initial firm shows negative corporate responsibility practices. However, this occurrence is not merely confined to the U.S market, and similar comments are often detected in other studies. For example, Mishra and Suar (2010) suggest that if consumers know that a certain goods is produced by a socially responsible firm, they have a propensity to provide positive inferences about the product. Such inferences induce consumer loyalty and turn consumers into company/brand ambassadors and champions who engage in advocacy behaviors. Lamberti and Lettieri (2009) also argue that as consumers become aware of the ethical implications of a firm’s behavior, they develop a trust in the belief that the firm will maintain its quality standards in order to enhance corporate reputation. In the same vein, beyond ethical considerations, consumers’ perceptions on CSR deficiencies can be extremely detrimental to corporate profitability and growth. A noteworthy point here is that such a detrimental effect derived from irresponsible behavior by firms is more vulnerable for MNEs in foreign markets. MNEs commonly suffer from the liability of foreignness. In this situation, spreading bad word-of-mouth about irresponsible business practices between consumers can be fatal to those organizations. The typical examples of the events are the boycotting of Nike products due to human rights’ abuses and unsafe working conditions at suppliers’ locations in Asia and long-term struggles experienced by Pepsi and Coca-Cola beverages in India due to strong reactions from environmentalists and consumers to the pesticide content. Moreover, SMEs including MNE subsidiaries are different from larger firms by their structural, social, functional attributes, and other characteristics, such as lack of high-quality internal resources,
cash-limited finances, and relatively small market share. Given these issues, we can conclude that consumer patronage stemming from CSR practices and business ethics is considerably critical for foreign investing firms and even more for SMMSs.

_Hypothesis 1: Consumers are an important stakeholder influencing CSR practices of SMMSs in foreign markets._

**Internal Managers:** One relevant stakeholder that directly influences corporate CSR is the personnel of an organization, and the role played by internal managers is particularly important. Corporate policies and practices towards union relations, remuneration policy, working conditions, and elimination of forced/child labor are commonly determined by managers (Mishra and Suar, 2010). This means that managers are firm-specific factors functioning as a key basis in orienting the organization and its decisions and behaviors particularly associated with CSR. In addition, managerial support not only for environmental and social initiatives but also for the presence of policy entrepreneurs positively affects an organization’s citizenship orientation (Lindgreen, Swan and Johnson, 2009). In this vein, there cannot be socially responsible MNE subsidiaries without socially responsible managers who have the willingness to sacrifice corporate objectives, strategic and resource allocation in favor of socially responsible actions in foreign markets (Godos-Díez, Fernández-Gago and Marínez-Campillo, 2011). Moreover, the role played by top management is perhaps more important for SMMSs to keep good and stable stakeholder relations and communicate clear and strong ethical business values relatively with small foreign investments. According to Hanke and Stark (2009), corporate values are mainly chosen and implemented personally by the managers in SMEs. That is because, unlike large firms, SMEs do not generally possess sufficient organizational resources to be simultaneously and fully allocated, and a manager’s personal perceptions for public tasks are logically more crucial in small firms than firms with many employees. From these implications, we can assume that CSR is an issue that suggests a reference to the personal interest of the managers of SMMSs. Hence,

_Hypothesis 2: Internal managers are an important stakeholder influencing CSR practices of SMMSs in foreign markets._

**Business Collaborators:** No one can argue that there is a strong possibility that adoption of superior CSR practices increases organizational success. Such anticipation is probably plausible in that investors as business collaborators have a propensity to show willingness to pay a premium for the stocks of firms which are socially responsible, compared to others (Mishra and Suar, 2010). That is to say, suppliers of capital may prefer to do business with firms exhibiting strong social performance because their cash flows may be perceived to be at less risk and less prone to be negatively influenced by scandal (O’Shaughnessy et al., 2007). Lindgreen et al. (2009) also argue that business collaborators with CSR policies may require partners to document that their raw materials, components, or services meet environmental and ethical standards. According to the same researchers, in this situation, the pressure for better social and environmental performance (i.e., better CSR behaviors and activities) commonly moves upstream through the value chain. Influence by business collaborators thus represents a formidable force that can effectively stop commercial cooperation and business relationships if MNE subsidiaries appear socially irresponsible in foreign markets. The business collaborators can be a particularly large and powerful stakeholder in the case where subsidiary size is a small or medium-scale company, which suffers from a lack of organizational resources, along with the liabilities of foreignness. This leads to the following hypothesis:
Hypothesis 3: Business collaborators are an important stakeholder influencing CSR practices of SMMSs in foreign markets.

Secondary Stakeholders

Governments: Government policies are one of the primary keys in encouraging a greater sense of CSR by exercising strong influence in shaping the context of economic actions as part of the rules of the game. Under this premise, we suggest that governments that enact CSR regulations are effective in establishing social expectations about responsible corporate behavior and in promoting the idea that firms play an important role in addressing social problems (Arya and Zhang, 2009). Hung (2011) also proposes similar opinions by arguing that firms are affected by the political environment in which they operate. According to him, in order to secure sustainable competitive advantages, a firm needs to use its organizational resources to undertake socially responsible actions for effective interaction within the political and legal environment. Through planned activities, which satisfy government demands, firms strive to influence the politically relevant elements of its external environment. In particular, many governments seem to have an increasing interest in CSR performance by MNEs and attempt to supervise the behaviors of global corporations, in effect forcing MNEs to be “good corporate citizens” in local markets (Husted and Allen, 2006). Previous studies also shed light on the role of local governments in improving MNE CSR. For example, Manakkalathil and Rudolf (1995) document that MNEs operating in underdeveloped countries generally find that regulatory environments are less sophisticated than those in their home countries, and thus they have a propensity to show unethical behavior in these countries. Luo (2006) concludes from his empirical experiments that the interaction between MNEs and local governments is a complex, dynamic, and interdependent process in which MNEs can escalate their relationships with governments. That is to say, political decisions may affect an MNE’s economic returns, and these decisions themselves are often determined by some conditioning factors that reflect an MNE’s efforts, such as their CSR activities. Detomasi (2008), in almost the same fashion, indicates that CSR efforts aid MNEs in building local legitimacy and strong local relationships with host governments, and it is possible to consider political conditions as a potential factor in interpreting an MNE’s decision to engage in CSR. The same logic can be applied to SMMSs.

Hypothesis 4: Governments are an important stakeholder influencing CSR practices of SMMSs in foreign markets.

Media: O’Riordan and Fairbrass (2008) argue that there is a growing sense of public disapproval in activities by MNEs. One likely reason causing this negativity associated with MNEs is the repeated occurrence of certain high-profile events, labeled by many as ‘scandals’. This behavior has frequently been emphasized through intense attention from the media, which have grabbed the opportunities to publicize alleged failings. Han, Lee and Khang (2008) find a typical example, malpractice in CSR causing serious damage to Nike's corporate image, and they shed light on the case as solid evidence showing how reputation and organizational performance are closely connected. According to their explanations, Nike's share value plummeted reflecting the revelation that Nike used sweatshop labor in Vietnam in 1996. The situation did not improve until Nike enacted vigorous CSR programs in order to change its corporate image. This clearly points out that media significantly contributes to fulfilling the ‘right to be informed’ by reporting, for instance, the public policy-making process, exposing corrupt acts, creating public opinion and general awareness (Azmat and Samaratunge, 2009). Media has thus recently emerged as a crucial stakeholder to
accelerate MNE CSR in global marketplace, and works to promote good governance and responsible business practices and is voicing the concerns of the community (Azmat and Samaratunge, 2009). In particular, when we consider SMMSs suffering investment risks in unknown foreign markets, but do not own sufficient organizational tangible or intangible assets we can easily forecast how corporate brands, identities and reputations influenced by media exposure are important for them to overcome this challenge. In this vein, the critical role of the media as a stakeholder should be acknowledged.

Hypothesis 5: Media is an important stakeholder influencing CSR practices of SMMSs in foreign markets.

Local Community: Essential attitudes on moral rights and obligations reflect a set of standards to which all societies can be held, and ‘local’ CSR deals with the firm’s obligations based on the standards of the local community (Husted and Allen, 2006). Thus, MNEs need to appropriately evaluate and respond to claims by the local community relevant to their “license to operate” in local markets (Russo and Perrini, 2010). Social activists have also been forcing MNEs to focus on CSR efforts and this voice is increasingly being echoed by local communities in which the firms operate. As is often the case, the activities of the MNEs are under more intense scrutiny from local communities (Torres-Baumgarten and Yucetepe, 2008). While MNEs attempt to meet the demands of local communities, they benefit from being recognized as an embedded part of the community in which they are doing business. Typical business involvement within the community, which generates such benefits, is seen in many areas, such as education, health, and income generation. CSR activities towards a community are seen in terms of philanthropic giving, public-private partnerships, community relationships, and participation in social and economic development issues (Mishra and Suar, 2010). In addition, when MNE subsidiaries focus their social actions within communities in local markets, they reap the benefits of a socially responsible image among their local employees and the local community (Lindgreen et al., 2009). In particular it has been observed that investments in the enhancement of relationships with the local community aid MNE subsidiaries in obtaining competitive advantages through tax savings, decreased regulatory burdens, and improvements in the quality of local labor (Waddock and Graves, 1997). Moreover, an important issue that should be noticed is that social activism used by local community groups as a stakeholder should be much more influential for SMMSs than large foreign organizations possessing organizational power. Hence,

Hypothesis 6: Local communities are an important stakeholder influencing CSR practices of SMMSs in foreign markets.

NGOs: Doh and Guay (2006) point out that the rising influence of NGOs is one of the most significant developments in international business over the past 20 years, and NGO activism has been responsible for major changes in CSR behavior. That is, NGOs recently have moved to the front in discussions on MNE CSR, using their status as stakeholders to push for change in local markets (Guay, Doh and Sinclair, 2004). More specifically, stakeholders are able to show a link between the local social issues and the business activities of the focal MNE subsidiary. By expressing a particular ethical claim, stakeholders draw attention to this causal relation. For example, an environmental NGO can potentially establish a causal connection between air pollution and the emissions of a particular MNE subsidiary. Hence, the NGO may pressure the MNE to reduce the factory’s emissions (Pater and van Lierop, 2006). This clearly indicates that NGOs influence MNE policy and subsidiary operations, and this influence can take several forms: public announcements, shareholder proposals, direct
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We should note that SMMSs must not be an exception from the logic discussed above. In this regard,

Hypothesis 7: NGOs are an important stakeholder influencing CSR practices of SMMSs in foreign markets.

Methodology

Sample and Data Collection
The population of this research is MNE subsidiaries, which are located in the South Korean market (South Korea will be referred as Korea, hereafter). The list of all subsidiaries was attained from Foreign Direct Investment published by the Ministry of Knowledge Economy (2011). This source covers all foreign investment activities undertaken in the country and the information on inward FDI in Korea is reliable and trustworthy in that most of the recent empirical examinations exploring ‘FDI in Korea’ have used the same data (e.g., Park, 2011; Park and Ghauri, 2011). Although this is official government information, we have decided to re-visit the corporate homepages of the directory. The primary reason for this action is because we wanted to ensure against the possibility that some MNEs might withdraw their foreign investments or terminate contracts with local firms resulting in the closing of the subsidiary operation. Thus, we did not include firms whose corporate homepages we were unable to find, in the sample, and through this process, a total number of 1,531 firms was finally compiled.

A questionnaire survey was used to collect data for statistical analysis. The survey was distributed between February and May 2012, and CEOs were regarded as best informants (Hence, questionnaires were sent to them). When the survey was done, a total of 312 responses were returned, giving a response rate of 20.38%. However, 12 responses were not usable (some respondents merely repeated a certain numeral or recurrently enumerated figures in consecutive order), and thus they were discarded. Renuka and Ventakeshwara (2006) propose that the definition of SME by size is different across the globe and the way it is defined hinges on the stage of economic development of the country concerned. According to the Scope of Korean SMEs (2010) published by the Korean Small and Medium Business Administration, SMEs are firms with fewer than 300 employees. Based on that criterion, 9 subsidiaries were additionally excluded, which means 291 responses were finally selected for examination. Prior to analysis, we checked the presence of non-response bias by using key parameters (detailed industry classification and origin of MNEs as well as early versus late respondents). However, we found no significant difference between the responding and the non-responding subsidiaries regarding two key parameters and significant differences between the early respondents and the late respondents were not found. From the results, we
conclude that non-response bias is minimal.

**Variable Measurement**

The level of CSR activities by MNE subsidiaries is a dependent variable, and it was assessed by a twelve-item scale based on Likert-type responses. Both primary and secondary stakeholders comprising seven factors are independent variables potentially influencing the phenomenon. These predictors were also measured on a five-point Likert scale. As might be noted from the explanations on variable measurement, we asked respondents to assess perceptually both dependent and independent variables, indicating that there is a possible presence of common method bias. To remedy this limitation, we have taken the following precautions: First, several individual items (i.e., multi-item scales) were used to measure the independent variables based on earlier literature. In addition, validated items by previous studies were employed by extensively reviewing the extant literature on similar topics (e.g., CSR, corporate social performance, corporate citizenship and ethics). Second, once the survey was completed, we interviewed 10 respondents for the purpose of confirming response consistency, but we did not find a considerable difference between the respondents' interview reports and their survey answers (Luo, 2006). Third, we also re-sent the same questionnaire to different people (e.g., general managers) of 50 sample firms, whose executives (CEOs) had responded to our survey earlier. Although we received 19 responses, we did not uncover any significant inconsistencies between the two respondents from each firm (Park, forthcoming). Fourth, following Podsakoff et al. (2003: 889), who suggest “One of the most widely used techniques that has been used by researchers to address the issue of common method bias is what has come to be called Harman’s one-factor (or single-factor) test,” we have entered all variables measured subjectively by the respondents into this testing method. The proportion of variance criterion exhibits three independent dimensions. ‘Internal managers and employees’, ‘business collaborators’ and ‘local community’ have high loadings on the first factor (35.8%); ‘media’, ‘NGOs’ and ‘CSR’ have high loadings on the second factor (17.1%); and ‘customer’, and ‘governments’ have high loadings on the third factor (14.5%). According to Podsakoff et al. (2003), the presence of a substantial amount of common method should be suspected in the case where (1) a single factor emerges from the factor analysis or (2) one general factor accounts for the majority of the covariance among the measures. The comments given by Podsakoff et al. (2003) and the outcomes from the analysis clearly confirm that this research does not suffer common method bias. A detailed description on the variable measurement is provided in Appendix A. It also shows information on sources of each variable measurement and Cronbach’s alpha.

Four variables were additionally included to control the effects of other factors on the MNE CSR: (1) development status of MNE origin. MNEs from developed economies, such as USA, Europe or Japan, are perhaps more familiar with CSR than other firms mainly based in developing countries. Thus, a dummy variable was created (1 for subsidiaries established by MNEs whose corporate origins are developed countries and 0 otherwise). (2) Ownership structure. The proportion of equity that MNEs possess might also affect MNE motivation to contribute to local societies and markets (it was measured by the proportion of foreign ownership). In addition, MNE CSR can also be influenced by (3) organizational size and (4) age. Size was calculated by the number of employees, whereas age was measured by the number of years since creation of the subsidiary, respectively.

**Result and Discussions**

We attempt to identify cause-and-effect relationships, and consider stakeholder influences causing MNE CSR practices in local economies. The most common analysis strategy for such
A research design is using an OLS regression technique (Hair, Anderson and Tatham, 1987). Prior to undertaking the analysis, we assessed the level of multicollinearity by observing correlations between variables (See Table 1). Although researchers suggest different cut-off points at which multicollinearity is defined and we conservatively take into account the possibility (For instance, Tabachnick and Fidell (1996) advise .70, Kim (2005) proposes .80, and Pallant (2001) recommends .90, respectively), the problem of multicollinearity is negligible. In addition, we also ran the variance inflation factor (VIF) to more minutely verify the non-existence of multicollinearity. Although Hair, Babin, Money and Samouel (2003) argue that 5.0 is a maximum acceptable VIF value, the highest value of VIF is less than 2.2 in our model, which confirms that multicollinearity is not problematic in carrying out OLS regressions.

*** Insert Tables 1 and 2 about here ***

Table 2 exhibits the results of the OLS regression analyses. Control variables and predictors associated with primary stakeholders are employed in Model 1, whereas control and independent variables related to secondary stakeholders are included in Model 2. In contrast, Model 3 is a full model. The results indicate that all regression models are highly significant (p < 0.001).

This research started with the anticipation that primary stakeholders, such as consumers, internal managers and business collaborators, function as a vehicle to expedite CSR practices by MNE subsidiaries in local markets. Previous studies argue that since organizational success hinges to a great extent on consumers and foreign subsidiaries, including SMEs, building and maintaining good relations. For many subsidiaries, CSR is seen as an important means of influencing the feelings, thoughts, and consequently purchase patterns of their target consumers. Thus, consumers are one of most critical stakeholders affecting CSR activities of an organization (Mishra and Suar, 2010). Managers are also significant change agents and their awareness of and commitment to CSR are widely considered as another key element for the implementation of social and environmental initiatives (Godos-Díez et al., 2011). As expected, the results from the regression models also suggest that both consumers and internal managers have significant effect on CSR behaviors and thus H1 and H2 are supported. This clearly indicates that both factors do not only enhance the organizational will in ethical activities but also highly expedites the fulfillment of corporate citizenship behavior. In line with this study, a number of extant empirics confirm their considerable impact on CSR (e.g., Hanke and Stark, 2009; Lamberti and Lettieri, 2009).

Unexpectedly, H3 was rejected, as business collaborators are statistically significant, but the significance is negative. This is contrary to the argument of Lindgreen et al. (2009) as they suggest that a key driver of MNE subsidiaries to be responsible is accountability to their business partners in the local supply chain. That is, local business collaborators may request MNEs to demonstrate that their business operations satisfy environmental and ethical standards in local markets. Thus, the pressure for better ethical performance moves upstream through the value chain. Moreover, in the case where the stakeholder is a large and dominant organization, its pressure can be a formidable force particularly to SMMSs. However, the results from the regression shown in Table 2 indicate that the citizenship behavior of SMMSs does not depend on the influence of local business collaborators. This somewhat surprising result can be understandable if we refer to explanations provided by Lee and Yoshihara (1997), who examined the level of business ethics of Korean firms (i.e., research context in this paper). According to them, since the dramatic economic development in Korea, Korean
firms have tried to meet elevated social expectations on ethical criteria, but their behavior is
generally still far from socially responsible attitudes. These researchers expand their opinions
and state that Korean firms perceive ontological corporate behavior as a necessary change for
transparent business, but they do not fulfill the expectations by practicing it in an appropriate
manner in the real world. As an example, top management operating a business in the market
have a propensity to charge private expenses to the company account. In addition, bribery is
quite a common experience in business contracts when decisive decision-making is required.
A more problematic point is that businessmen consider it a normal practice and others also do
the same. The survey results from Choi and Nakano (2008) reveal similar reasoning.
According to their survey, although Korean firms have achieved notable progress in
implementing systematic measures to establish corporate ethics, undesirable custom (e.g.,
giving of unreasonable gifts, unfair gratuities and bribes) still exists in their business habits.
We assume that while Koreans accomplished remarkably faster economic growth than other
parts of the world (Korea attained an average growth rate of 8 per cent per annum from 1958
to 1988, and ranked as the eleventh largest economy in the world (Bennett, 1999)), this final
outcome is largely emphasized more than business process. This may imply that in order to
obtain rapid economic developments in many emerging markets, business collaborators in
these countries are less likely to focus on CSR than those, for example in developed
economies. Due to the market characteristics, the negative influence of business collaborators
in emerging markets on CSR practices by SMMSs is perhaps a reasonable outcome.

Secondary stakeholders comprising government, media, local community and NGOs are
other factors that are anticipated to be positively associated with MNE CSR. When MNEs
attempt to penetrate into foreign emerging markets, they perhaps experience more liabilities
of foreignness than entry into developed economies in that investments into emerging
markets may encompass various risks stemming from many unknown business environments.
Meanwhile, we need to note that secondary stakeholders, who are not directly engaged in
business transactions, but still influence or affect, or are influenced or affected by the MNEs,
are the ones primarily generating the business risks. In this vein, the maintenance of good
relationships with secondary stakeholders is a prerequisite for MNEs to be successful in
emerging markets, and in addition, CSR practices asked by the former can be a daunting
stimulus particularly in the perspective of SMMSs which do not possess strong market
power. These discussions indicate that the positive and significant association between
secondary stakeholders and CSR practices in Model 2 is logically plausible. However,
interestingly, these factors lose their statistical power in Model 3, giving only partial support
for H4, H5 and H6. In order to explore the possible reasons for the results, we ran an
additional regression (see Model 4). According to the result yielded by Model 4, (local)
government, media and local community play a minimal role in overseeing MNEs’ ethical
behaviors under the presence of local consumers owning a strong willingness to supervise
MNE subsidiaries in emerging markets. The creation of a decent subsidiary image is an
important key element that determines its performance abroad, and it is perhaps even more
crucial for SMMSs for secure operation in relatively unknown emerging markets. In this
situation, we presume that local consumers considerably affecting corporate reputation play a
pivotal overseer role in forcing MNE subsidiaries to design strict ethical standards and
embark on CSR activities in host countries. That is, a bad reputation triggered by local
consumers can be a lethal detonator inducing investment failure, and thus it could be deadly
for SMMSs suffering from the liabilities of foreignness in emerging markets. Other
researches also show similar opinions. For instance, Strike et al. (2006) suggest that
secondary stakeholders, such as government and media tend to focus on large visible firms,
which are able to generate strong impacts on their societies, and thus the behaviors of large
MNE subsidiaries are often seriously monitored and criticized by them. This commentary indicates that these stakeholders draw relatively macro pictures of local societies, whereas other stakeholders, such as consumers, concerned with more direct relationships with firms, attempt to do the same job in the micro way, which sheds light on the role of consumers in particular motivating the CSR practices of SMMSs. Unlike these factors, our result confirms findings by previous studies (e.g., Doh and Guay, 2006; Guay et al., 2004) and points to NGOs as an important social guard putting strong pressure even on SMMSs in host markets.

Conclusions

In this paper, we have examined determinants potentially influencing CSR practices from a stakeholder perspective. We have focused on SMMSs, as by exploring them, we believe we will be able to understand the fundamental surrounding environments of foreign firms promoting corporate citizenship and further ease and contextualize globalization for firms even when they are SMEs. Factors identified are relational determinants influencing subsidiary operations and motivating their CSR behavior in foreign markets. We may need to explain the essential rationale to draw the research framework. Although the CSR issues are thoroughly dealt with in academic areas, such as Strategic Management and Marketing, their implications for MNE subsidiaries (particularly for SMMSs) associated with CSR have been largely overlooked in the International Business field.

The primary idea of our argument is that relational elements (i.e., stakeholders) included in our model affect corporate decisions in terms of whether or not subsidiaries will adapt to local CSR practices. In addition, these components may significantly determine corporate behavioral patterns in local markets and subsequently function as stakeholder pressure influencing subsidiaries to act in a socially responsible manner in local societies. In other words, we expect that the extent to which subsidiaries adapt to local CSR practices and their willingness to invest in CSR issues may essentially depend on the levels of demand of the local stakeholders. In the cases where stakeholders have strong power, SMMSs need to avoid significant conflicts with them, so that the latter will improve its organizational image through ethicality, elevating corporate reputation and possibly enhancing, in turn, organizational performance in target markets. Moreover, we anticipate that it will be particularly important for SMMSs to meet stakeholder demands if they run businesses in emerging economies that have very different institutional business environments with the additional risk of their foreignness.

This paper raises an important agenda for MNEs to obtain organizational success in foreign markets by addressing CSR issues in their subsidiaries. We argue that CSR issues are not isolated from other organizational issues and are closely associated with the process and outcomes of MNE strategy. When we consider previous misconduct committed by major MNEs (According to Mishra and Suar (2010), boycotting of Nike products due to human rights’ abuse and unsafe working conditions at suppliers’ locations in Asia and the sharp reaction from environmentalists and consumers to the pesticide content in Pepsi and Coca-Cola beverages in India as typical examples) and their prolonged troubles in foreign markets, we cannot stress enough how important CSR issues are for business success abroad. We hope that this paper encourages a discussion on the role of CSR in subsidiary operations and how MNEs can achieve strategic advantages through subsidiary CSR activities over other firms in the global marketplace. On the theoretical side, we contribute to stakeholder theory by identifying key contributors promoting CSR behavior and providing a short-cut to organizational triumph in the global context. In addition, we also contribute to CSR literature
in that we integrate relational aspects and contextualize the CSR phenomenon with MNE subsidiaries.

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Table 1. Descriptive statistics and correlations

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<th>Mean</th>
<th>S.D.</th>
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<th>3</th>
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<th>5</th>
<th>6</th>
<th>7</th>
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<td>1. Development status of MNE origin</td>
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<td>1.00</td>
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<td>2. Ownership structure</td>
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<td>36.92</td>
<td>0.29*</td>
<td>1.00</td>
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<tr>
<td>3. Subsidiary size</td>
<td>45.01</td>
<td>53.87</td>
<td>0.31*</td>
<td>0.23*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Subsidiary age</td>
<td>9.02</td>
<td>8.28</td>
<td>0.36*</td>
<td></td>
<td>0.31*</td>
<td>0.23*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Customer</td>
<td>3.18</td>
<td>0.61</td>
<td>-0.07</td>
<td>-0.08</td>
<td>0.03</td>
<td>-0.06</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Internal managers and employees</td>
<td>3.38</td>
<td>0.51</td>
<td>0.12</td>
<td>-0.13*</td>
<td>0.00</td>
<td>0.06</td>
<td>0.40*</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Business collaborators</td>
<td>3.38</td>
<td>0.59</td>
<td>0.00</td>
<td>-0.01</td>
<td>-0.01</td>
<td>0.01</td>
<td>0.35*</td>
<td>0.62*</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>8. Government</td>
<td>3.18</td>
<td>0.57</td>
<td>0.18*</td>
<td>0.04</td>
<td>0.02</td>
<td>-0.03</td>
<td>0.47*</td>
<td>0.03</td>
<td>0.05</td>
<td>1.00</td>
</tr>
<tr>
<td>9. Media</td>
<td>3.47</td>
<td>0.59</td>
<td>-0.06</td>
<td>-0.03</td>
<td>0.01</td>
<td>-0.10</td>
<td>0.32*</td>
<td>0.20*</td>
<td>0.25*</td>
<td>0.15*</td>
</tr>
<tr>
<td>10. Local community</td>
<td>3.48</td>
<td>0.54</td>
<td>-0.09</td>
<td>-0.01</td>
<td>-0.03</td>
<td>-0.03</td>
<td>0.48*</td>
<td>0.42*</td>
<td>0.50*</td>
<td>0.20*</td>
</tr>
<tr>
<td>11. NGO</td>
<td>3.01</td>
<td>0.64</td>
<td>0.17*</td>
<td></td>
<td>0.17*</td>
<td>-0.10</td>
<td>0.48*</td>
<td>0.42*</td>
<td>0.50*</td>
<td>0.20*</td>
</tr>
<tr>
<td>12. CSR</td>
<td>3.59</td>
<td>0.43</td>
<td>-0.06</td>
<td>0.06</td>
<td>-0.02</td>
<td>-0.04</td>
<td>0.25*</td>
<td>0.19*</td>
<td>0.09</td>
<td>0.13*</td>
</tr>
</tbody>
</table>

N = 291** p < 0.01; * p < 0.05
Table 2. Analysis results: OLS regression

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development status of MNE origin</td>
<td>-0.056</td>
<td>-0.012</td>
<td>-0.021</td>
<td>-0.005</td>
<td>1.355</td>
</tr>
<tr>
<td>Ownership structure</td>
<td>0.053</td>
<td>-0.017</td>
<td>-0.002</td>
<td>-0.005</td>
<td>1.212</td>
</tr>
<tr>
<td>Subsidiary size</td>
<td>-0.023</td>
<td>-0.029</td>
<td>-0.020</td>
<td>-0.026</td>
<td>1.188</td>
</tr>
<tr>
<td>Subsidiary age</td>
<td>-0.035</td>
<td>0.003</td>
<td>-0.015</td>
<td>0.004</td>
<td>1.185</td>
</tr>
<tr>
<td>Customer</td>
<td>0.246**</td>
<td>0.187*</td>
<td>0.224**</td>
<td>2.108</td>
<td></td>
</tr>
<tr>
<td>Internal managers and employees</td>
<td>0.238**</td>
<td>0.273**</td>
<td></td>
<td>2.041</td>
<td></td>
</tr>
<tr>
<td>Business collaborators</td>
<td>-0.145†</td>
<td>-0.240**</td>
<td></td>
<td>1.899</td>
<td></td>
</tr>
<tr>
<td>Governments</td>
<td>0.136*</td>
<td>0.064</td>
<td>0.051</td>
<td>1.439</td>
<td></td>
</tr>
<tr>
<td>Media</td>
<td>0.124†</td>
<td>0.058</td>
<td>0.067</td>
<td>1.481</td>
<td></td>
</tr>
<tr>
<td>Local community</td>
<td>0.159*</td>
<td>0.086</td>
<td>0.082</td>
<td>1.806</td>
<td></td>
</tr>
<tr>
<td>NGOs</td>
<td>0.216**</td>
<td>0.308***</td>
<td>0.276***</td>
<td>1.381</td>
<td></td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.098</td>
<td>0.152</td>
<td>0.214</td>
<td>0.175</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>4.337***</td>
<td>5.760***</td>
<td>6.288***</td>
<td>6.010***</td>
<td></td>
</tr>
</tbody>
</table>

Notes:
Coefficients standardized, † p < 0.1; * p < 0.05; ** p < 0.01; *** p < 0.001
## Appendix A. Variable measurements

1. **Dependent variable (MNE CSR: adopted from Luo, 2006)**

<table>
<thead>
<tr>
<th>Items (ranging from 1 = very strongly disagree to 5 = very strongly agree)</th>
<th>Cronbach’s alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Our company has established a set of transparent, comprehensive, and stringent codes of conduct aiming at resisting bribery, corruption, and other illicit acts in the host country. (2) Throughout the company, every manager and employee has strictly implemented the above codes of conduct. (3) Our company has established an ethics compliance department or division that specifically handles the improvement, training, and enforcement of the above codes of conduct. (4) Our company always attaches the utmost value to, and takes actual steps in, enhancing corporate image and reputation. (5) Our company always honors our promises regarding product and/or service offerings and is dedicated to adapt to the local consumers’ needs. (6) Relying on its honesty and credibility, our company has maintained good and stable relationships with local suppliers, distributors, and other business partners. (7) Each year our company allocates some portion of retained earnings to charitable organizations. (8) Our company always recognizes its social responsibility and participates in helping the needy and the outcasts of society and improving a backward facility of the local community. (9) Each year our company uses some portion of retained earnings to help the local community to consummate the public infrastructure and environmental protection. (10) The resources (e.g., technology, skills, capital, or equipment) we invested in local project(s) are always complementary to the host country’s economic development needs. (11) We always invest resources (e.g., technology, skills, capital, or equipment) that the local government needs for social development. (12) The resources (e.g., technology, skills, capital, or equipment) we invested in local project(s) always contribute to industrial development by enhancing technological and managerial knowledge in the local market.</td>
<td>0.819</td>
</tr>
</tbody>
</table>

(Continued)

### Appendix A (continued).

2. **Independent variables**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Measurement (ranging from 1 = very strongly disagree to 5 = very strongly agree)</th>
<th>Cronbach’s alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer (Adapted from Tian, Wang and Yang, 2011)</td>
<td>(1) Consumers care about environmental protection in the daily consumption. (2) Consumers pay attention to some social issues involving firm’s charitable donations. (3) Consumers tend to buy those products which are produced by firms that are socially responsible rather than goods which are fine and inexpensive.</td>
<td>0.877</td>
</tr>
</tbody>
</table>
### What matters to CSR practices in small and medium sized MNE subsidiaries: A stakeholder perspective

<table>
<thead>
<tr>
<th>Variable</th>
<th>Measurement (ranging from 1 = very strongly disagree to 5 = very strongly agree)</th>
<th>Cronbach’s alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal managers and employees</strong> (Adapted from Munilla and Miles, 2005)</td>
<td>(1) Our managers and employees perceive CSR as an important mechanism potentially contributing to the creation of corporate value. (2) Our managers and employees perceive that CSR enhances competitive advantage, and eventually improves the economic value of the firm. (3) Our managers and employees believe firms need to contribute to local countries, societies and markets. (4) Our managers and employees believe being ethical and socially responsible is the most important thing a firm should do.</td>
<td>0.743</td>
</tr>
<tr>
<td><strong>Business collaborators</strong> (Created by this study)</td>
<td>(1) Local investors tend to prefer investment into firms which are socially responsible. (2) Local business partners tend to prefer close cooperation with firms which are socially responsible. (3) Local suppliers tend to prefer the maintenance of cooperation with firms which are socially responsible.</td>
<td>0.803</td>
</tr>
<tr>
<td><strong>Governments</strong> (Adapted from Qu, 2007)</td>
<td>(1) The local government has stricter regulations to protect the consumers. (2) The local government has effective regulations to encourage firms to improve their product and services quality. (3) There are complete laws and regulations to ensure fair competition.</td>
<td>0.778</td>
</tr>
</tbody>
</table>

(Continued)

### Appendix A (continued).

<table>
<thead>
<tr>
<th>Variable</th>
<th>Measurement (ranging from 1 = very strongly disagree to 5 = very strongly agree)</th>
<th>Cronbach’s alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Media</strong> (Created by this study)</td>
<td>(1) Media plays a pivotal role in maintaining and improving public relations between firms and consumers in the local market. (2) Mass media has a strong power in shaping corporate image and reputation in the local market. (3) Compared with other countries, mass media in Korea pays more attention to the societal role of firms in the local market.</td>
<td>0.826</td>
</tr>
<tr>
<td>Variable</td>
<td>Measurement (ranging from 1 = very strongly disagree to 5 = very strongly agree)</td>
<td>Cronbach’s alpha</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------------</td>
</tr>
</tbody>
</table>
| Local community (Created by this study) | (1) Local communities expect companies to contribute to society development by volunteering time and effort to local activities.  
(2) Local communities expect companies to contribute to society development by getting involved in community event in non-financial ways.  
(3) Local communities expect companies to contribute to society development by providing jobs and treating their employees well. | 0.835            |
| NGOs (Created by this study)    | (1) NGOs police and supervise effectively corporate activities in the local market.  
(2) NGOs have a propensity to attempt to influence the CSR activities of corporate management by using various instruments.  
(3) NGO community in the local market has a sufficient power to exert pressure on multinational enterprises to change their behavior and corporate strategy on CSR activities. | 0.834            |

This work was supported by the National Research Foundation of Korea Grant funded by the Korean Government (NRF-2011-330-B00092).
Risk Management in State Bank of India (SBI): An Empirical Investigation

Abstract
In everyday life, risk is about undesired unpleasant, and at times disastrous prospective events associated with human action or inaction. Banking is becoming complex, compounded by exploding technological capabilities expanding product offerings and deregulation of competition. In other words, banking is a business of risk. For this reason, efficient risk management is extremely required. Recently many banks have appointed senior managers to oversee a formal risk management function. In this background, this study aims to determine the firm’s level factors which have significantly influencing the risk management practices in State Bank of India (SBI) for the period of five years from 2007 to 2011. This study has employed credit, liquidity and operational risk as variables to evaluate the risk management practices of State Bank of India. Credit risk is the oldest and biggest risk that bank, by virtue of its very nature of business, inherits. Better credit portfolio diversification enhances the prospects of the reduced concentration of credit risk. The study also analyses the impact of size and ownership of banks on the range of operational risk management practices used by SBI through execution of survey comprising of a questionnaire. From the study it is evidenced that the size of the bank has significant relationship with credit and liquidity risk and where as operational risk was found to be insignificant. The effective management of credit, liquidity and operational risks is a critical component of comprehensive risk management essential for long-term success of a banking institution.

Keywords: Risk management, Credit risk, Liquidity risk, operational risk, State Bank of India, credit portfolio, comprehensive risk management.

The Prologue
The financial system is the lifeline of the economy. Liberalization and de-regulation process started in 1991-92 has made a sea change in the banking system. The financial sector reforms carried out so far have made the balance sheets of banks look healthier and helped them move towards achieving global benchmark in terms of prudential norms and best practice. The competitive environment in the banking sector is likely to result in individual players working out differentiated strategies based on their strengths and market niches. In the last ten years we have seen transformation in terms of consistently higher growth rates adoption of core banking solutions, transformation in the payments systems and greater integration with the global economy. In the light of the recent global financial crisis, risk measurement and management in the Indian Banking Sector is gaining importance. Banks generally face various risks such as credit risk, operational risk and liquidity risk etc. The implementation of Basel II Accord is likely to lead to a sharper focus on the risk measurement and management at the institutional level. Basel II also suggests that banks can develop their own internal risk
management procedures but advises that such approach be disclosed to the regulatory body, in the light of that the present study is undertaken to analyze the various risk.

Risk management evolved from a strictly banking activity, related to the quality of loans, to a very complex set of procedures and instruments in the modern financial environment. Risk management in banking reflects the entire set of risk management process and models allowing banks to implement risk based policies and practices. In the recent past varieties of modules and risk management tools were emerged for quantifying and monitoring risks. Bank risks are of many types i.e., Financial Risks and Non-Financial Risks, under financial risk we have seen Credit risk and Market risk, on the other hand operational risk, Business risk, and Strategic risk and above risks are divided into many risks. Due to time and study constraint, we have done study on Credit risk management in (State Bank of India) SBI. We have studied how the SBI and its Associate banks identify the credit risk and how they manage to avoid it by applying various types of methods.

**Credit risk Management**

Credit risk involves the inability or unwillingness of borrower or counter party to meet its obligations in accordance to the agreed terms. There is always scope for the borrower to default from his/her comments for one or other reason resulting in crystallization of credit risk to the bank. Credit risk is possibly the most important risk faced by banks. This section aims to identify the different sources of credit risk within a banks’ balance sheet, how these risks can be managed, mitigated against and quantified. The section analyses with a study of the treatment of credit risk for regulatory capital from Basel I through to Basel III

**Identifying and quantifying the risk:**

a) Importance of credit risk and relation to other risks

b) Categories of credit risk

Risk types: lending, issuer, contingent, pre-settlement, settlement, transfer /country  risk
Methodologies for quantifying the exposures (particularly pore-settlement risk)

**Managing credit risk**

Limits and safeguards – policy, process and procedures
Credit approval authorities and transaction approval process Aggregating exposure limits by customer, sector correlations
Credit mitigation techniques: collateral, termination clauses, re-set clauses, cash settlement, netting agreements
Applications and risks of mitigation : wrong way trades
Documentation : covenants, ISDA / CSA and other collateral
Credit portfolio management techniques: syndication, sub-participation, whole loan sales, credit derivatives, securitization
Fundamentals of credit risk capital measurement: probability of default, exposure, loss given default and correlation
Capital treatment of credit risk under Basel I and II and III
Standardized approach
Foundation and advanced internal ratings based approaches
Recognition of credit mitigation techniques
Regulatory capital treatment for derivatives
Measurement of Credit Risk
To measure the credit risk Reserve Bank of India (RBI) implementing advanced approach under Basel II, Viz., Internal Rating Based (IRB) Approach. In addition to implementing the standardized approach, well defined credit risk practices such as use of Credit Risk Assessment (CRA) Models, Industry Exposure Norms, Counterparty Exposure Limits, Substantial Exposure Norms, Macro Economic, Stress Test etc., have also been put in place to improve credit risk management. The bank has now set in process a project to migrate to Internal Rating Based (IRB) Approach. By measuring the “Expected loss", credit is quantitatively measured.

\[
\text{Expected Loss} = \text{Probability of Default (PD)} \times \text{Loss Given at Default (LGD)} \times \text{Exposure at Default (EAD)}
\]

In the data repository, historical data of clients, credit details is available, from which s normal probability distribution curve will be plotted. Above three variables (PD, LGD, EAD) will be calculated from the normal distribution curve.

Review of Literature
Bratanovic and Greuning (2000) recommended that credit risk ratios can be used as a measure of the credit risk associated with the banking sector and highlighted the usefulness of such ratios for banks to internally lower the ratio and avert any catastrophic failures.

Sathe (2003), while studying the performance of Indian commercial banking sector found that the public sector banks performed better than their private sector counterparts with regards to their overall efficiency. He also raised concern over the higher level of Non-performing assets (NPA) in the banking system and suggested that policies be implemented to reduce the bad loans.

Safakli (2007) did an extensive study of credit risk associated with the banking sector and Northern Cypress and found that the credit risk ratios were indicative of the credit risks associated with the banking sector and correlated the risk ratios with key macroeconomic indicators.

Bhattacharya (2001) rightly points to the fact that in an increasing rate regime, quality borrowers would switch over to other avenues such as capital markets, internal accruals for their requirement of funds. Under such circumstances, banks would have no option but dilute the quality of borrowers thereby increasing the probability of generation of NPAs.

Rajaraman and Vasishta (2002) is an empirical study provided an evidence of significant bivariate relationship between an operating inefficiency indicator and the problem loans of public sector banks.

Objectives of the Study
The objectives of the study are as follows:
To study the summary of risk management in banking sector in general SBI and its associates in particular.
To access the various study conducted in risk management in banking sector.
To analyze the Basel I, Basel II and Basel III accord in bank credit risk management.
To highlight the SBI and its associates credit risk components.
To offer findings, recommendations and conclusion in the light of the study.
Research Methodology
The present study is based on data gathered from secondary sources. The relevant secondary data were collected by making reference to the Government publications, Bulletins of the RBI, Bulletins of the Indian Banks Association, Mumbai, National Institute of Bank Management (NIBM), Pune. The Journal of Indian Institute of Banking and Finance, RBI issues like reports on Trend and Progress of Banking in India. Annual Reports of various banks, Apart from these different editions of daily newspapers such as Financial Express, Business Line and Business Standard were also used for the purpose of collection of data. The data relevant to the study was also collected from websites. In addition to above listed secondary sources, various reports of SBI were also widely used. Due to time and study constraint, we have done study only on Credit risk management in State Bank of India and its Associates.

State Bank of India – An Overview
On 1st July State Bank of India was constituted under the State Bank of India Act 1955, for the purpose of taking over the undertaking and business of the Imperial Bank of India. On September 1959, the State Bank of India (subsidiary bank act was passed). On October State Bank of Hyderabad become the first subsidiary of SBI. In 1960 State Bank of Jaipur, State Bank of Bikaner, State Bank of Indore, State Bank Travancore, State Bank of Mysore, State Bank of Patiala, State Bank of Saurashtra become subsidiaries of the bank. SBI is that country’s largest commercial bank. The government controlled bank, the Indian government maintains a stake of nearly 60 per cent in SBI through the Central Reserve Bank of India and also operates the world’s largest branch network. As of March 31st 2012 the bank had a network of 20193 branches, including 5096 branches of its five associate banks. In addition to banking, the company through its various subsidiaries provides a range of financial services, which includes life insurance, merchant banking, mutual funds, credit card, factoring, security trading, pension fund management, custodian services, general insurance (non life insurance) and primary dealership in the money market.

SBI and its Subsidiaries

Risk Management in SBI
From the chart it is clear that an independent risk governance structure is in place for integrated risk management covering enterprise, credit, market, operational and group risks. This frame work visualizes empowerment of business units at the operating level with technology being the key driver enabling identification and management of risk at the place of origination.
Risk Management Structure of SBI

Chart – 1
Risk Management Structure

Source: IBA Bulletin

Basel Implementation
In accordance with RBI guidelines, the Bank has migrated to the Basel II framework, with standardized Approach for Credit Risk and Basic Indicator approach for Operational Risk w.e.f. March 31, 2008, having already implemented the Standardized Measurement Method for Market Risk w.e.f. March 31, 2006. RBI has issued Guidelines on Implementation of Basel III Capital Regulations in India on 2nd May, 2012. These Guidelines will become effective from January 1, 2013, Bank is in the process of putting in place appropriate mechanism to comply with these guidelines.

Non-Performing Assets (NPAs) Position in SBI and its Associates
NPAs are the primary indicators of credit risk. Capital Adequacy Ratio (CAR) is another measure of credit risk. CAR is supposed to act as a buffer against credit loss, which is set at 9 per cent under the RBI stipulation companies against the Basel Committee stipulation of 8%.

Table No. 1 highlights the NPAs position of SBI and its associates. The total amount of NPAs was increased from Rs. 12556 crores to Rs. 28140 crores from 2007 to 2011. The percentage of NPAs in priority sector was decreased from 57.15 per cent to 55.32 per cent from 2007 to 2011. In non-priority sector the NPAs percentage was increased from 41.36 per cent to 44.66 per cent from 2007 to 2011. In the year 2011 the public sectors NPAs was minimum and stood at 0.02 per cent. To conclude, NPAs in public sector was less when compared to other sectors.
Table No. 1
NPAs of SBI & its Associates
(₹. In Crores)

<table>
<thead>
<tr>
<th>Years</th>
<th>Priority Sector</th>
<th>Non-priority Sector</th>
<th>Public Sector</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>% to total</td>
<td>Amount</td>
<td>% to total</td>
</tr>
<tr>
<td>2007</td>
<td>7175</td>
<td>57.15</td>
<td>5193</td>
<td>41.36</td>
</tr>
<tr>
<td>2008</td>
<td>8902</td>
<td>58.49</td>
<td>6222</td>
<td>40.88</td>
</tr>
<tr>
<td>2009</td>
<td>8447</td>
<td>47.76</td>
<td>9250</td>
<td>51.75</td>
</tr>
<tr>
<td>2010</td>
<td>10940</td>
<td>50.11</td>
<td>10646</td>
<td>48.77</td>
</tr>
<tr>
<td>2011</td>
<td>15567</td>
<td>55.32</td>
<td>12567</td>
<td>44.66</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress in India.

Capital Adequacy Ratio (CAR):
A measure of a bank’s capital and it is expressed as a percentage of a bank’s risk weighted credit exposures. Also known as “Capital to Risk Weighted Assets Ratio (CRAR)

\[
\text{CAR} = \frac{\text{Tier one Capital} + \text{Tier Two Capital}}{\text{Risk Weighted Assets}}
\]

Risk Weighted Assets
Ever since its introduction in 1988, capital adequacy ratio has become an important benchmark to assess the financial strength and soundness of banks.

Table No. 2
Capital Adequacy Ratio of SBI and its Associates

<table>
<thead>
<tr>
<th>Banks</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Bank of India</td>
<td>13.54</td>
<td>NA</td>
<td>12.97</td>
<td>14.25</td>
</tr>
<tr>
<td>State Bank of Bikaner &amp; Jaipur</td>
<td>13.50</td>
<td>12.51</td>
<td>13.18</td>
<td>14.52</td>
</tr>
<tr>
<td>State Bank of Indore</td>
<td>11.31</td>
<td>11.29</td>
<td>11.81</td>
<td>13.46</td>
</tr>
<tr>
<td>State Bank of Patiala</td>
<td>12.50</td>
<td>13.56</td>
<td>11.43</td>
<td>12.60</td>
</tr>
<tr>
<td>Banks</td>
<td>2008</td>
<td>2009</td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>---------------------------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>State Bank of Travancore</td>
<td>12.68</td>
<td>13.53</td>
<td>12.13</td>
<td>14.03</td>
</tr>
</tbody>
</table>

Source: Report on Trend and Progress in India.

Table No. 2 indicates the capital adequacy ratio of SBI and its associates. In the year 2008 the Basel I remained well compared to Basel II. In the years 2009, 2010 and 2011 Basel II remained well compared to Basel I above the stipulated regulatory norm of 9.00 per cent. In the year 2008 the State Bank of Bikaner and Jaipur CRAR ratio was highest in Basel I when compared to State Bank of Patiala which stood at 13.56 per cent in Basel II. In 2009 the State Bank of Bikaner and Jaipur CRAR ratio in Basel I and Basel II was highest and stood at 13.18 per cent and 14.52 per cent respectively. In the years 2010 and 2011 State Bank of Hyderabad CRAR ratio was highest when compared with other associates of SBI. To conclude, the performance of SBI and its associates in relation to CRAR was satisfactory.

**Findings of the Study**

The study reveals that SBI and its associates sanctioned less credit to agriculture as compared to other components.

Recovery of credit is satisfactory in the study period. SBI’s recovery policy is very good, and this reduces NPAs.

Total advance of SBIs is increased year by year.

The NPA position of SBIs increases year by year.

SBI is granting credit in all sectors in an equated monthly instalment, so that anybody can borrow money easily.

SBI and its associates is expanded its credit in the following focus areas: (i) SBI term deposits; (ii) SBI recurring deposits; (iii) SBI housing loan; (iv) SBI car loan; (v) SBI education loan; (vi) Personal Loan etc.,

**Recommendations**

The bank should keep on revising its credit policy which will helps banks effort to correct the course of the policies.

The bank officials should make modifications to the procedural guidelines for implementation of the credit policy as they may become necessary from time to time on account of organizational and situational needs.

Bank as to grant the loans to the borrower at a moderate rate of interest that will help the borrower to repay the loan amount to bank regularly and promptly.

**Conclusion**

Risk management is not something new. Every employee joining a bank starts learning about the risk inherent in banking operations from day one. Risk management is one of the most important practices to be used especially in banks. Risk is threats of banks of course, RBI is issuing guidelines from time to time to maintain solvency of each and every banks. From this view, internal management of SBI and its associates should be checked frequently against this possible risk. And it is also important that the external credit and risk management agencies should be consulted by each other regularly so that risk can be controlled and managed. An efficient risk management system is the need of time.
This paper has provided an overview of 1) the conceptualization of risk management, 2) the management of credit risk by SBI and its associates, 3) The components of credit risk management in SBI and its associates were analyzed i.e., Non-performing Assets for the period of five years and capital adequacy ratio for the period from 2008 to 2011 (four years period). Due to time and study constraint we have covered only credit risk management. Credit risk management is a vast subject and it is very difficult to cover all the aspects of credit risk management in SBI and its associates.

References

Report on Trend and Progress of India (Various Issues).
Indian Banking Association (Various Issues).
Reserve Bank of India (Various Issues).

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** Professor, Department of Business Administration, Berhampur University, Berhampur-760007, ODISHA, INDIA.
ABSTRACT

With the emergence of IT on the national agenda and the announcement of ICT policies by various state governments have recognized the convergence of core technologies and e-governance as the tool for good governance, sustainable development, globalization of economy and social empowerment. Across the globe, countries have recognized Information and Communication Technology (ICT) as an effective tool in catalyzing the economic activity in efficient governance and in developing human resources. There is a growing recognition of the newer and wider possibilities that technology presents before the society in the modern times. IT together with Communication Technologies has brought about unprecedented changes in the way people communicate; conduct business, pleasure and social interaction. The evolution of new forms of technologies and imaginative forms of applications of the new and older technologies makes the lives of the people better and more comfortable in several ways.

A large group of working women of India is in the rural and unorganized sectors. Socially, the majorities of Indian women are still tradition bound and are in a disadvantageous position. More women are involved in careers in the communications sector, but few have attained positions at the decision-making level or serve on governing boards and bodies that influence media policy. The lack of gender sensitivity in the media is evidenced by the failure to eliminate the gender-based stereotyping that can be found in public and private local, national and international media organizations.

INTRODUCTION

Women are equal beneficiaries to the advantages offered by technology. The study finds out the infrastructure available to different segments of the women and social freedom and opportunities in rural areas in the Karnataka State. The applicability may invite Government intervention to stop digital divide among women and more empowerment for rural women with ICT usage.

Emergence of ICT on the national agenda and announcement of ICT policies by several State Governments has strengthened India’s position in the ICT sector in the world. For example states of Tamil Nadu, Andhra Pradesh, Delhi, Goa, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Meghalaya, Orissa, Punjab, Rajasthan, Sikkim, Uttar Pradesh, West Bengal, Pondicherry etc. announced several ICT policies in their respective states.

It is a commonly held view that women are less engaged with ICT than men. The benefits accrued from the synergy of knowledge and ICT need not be restricted to the upper strata of
the society but have to freely flow to all segments of the female population. The gamut of areas in which ICT can put a greater control in the hands of women is wide and continuously expanding having access to lifelong learning opportunities. The communication technologies in convergence with other forms of communication have the potential to reach those women who hitherto have not been reached by any other media, thereby empowering them to participate in economic and social progress, and make informed decision on issues that affect them.

Inequality in women's access to and participation in all communications systems, especially the media, and their insufficient mobilization to promote women's contribution to society. Since globalization is opening up the Indian economy suddenly at a very high speed, during the past decades, advances in information technology have facilitated a global communications network that transcends national boundaries and has an impact on public policy, private attitudes and behavior, especially of children and young adults. Everywhere the potential exists for the media to make a far greater contribution to the advancement of women.

Women are exposed to great discrimination in economic, education, health and social services access worldwide. On the other hand the range of women’s economic activities in developing countries is very broad. It includes formal sector and informal sector employment, as well as self-employment in farming, trading and crafts production etc.

There are numerous possibilities for ICTs to improve women’s economic activities in the field of trade, governance, education, health, crafts, employment in formal as well as informal sector. ICT’s bring lot of opportunities to women in the work situations and small business. Teleporting, flexi time and work from home arrangements are some of the gender dimensions of ICT usages.

**Rural women and ICT**

Like urban-rural disparity, the women also divided on the basis of economic and social positions in the rural society to understand their information needs. Their information needs are akin to that of the urban elite women excepting for the fact that they often are passive viewers in the changing socio-economic scenario because they are bound by traditions. The rural educated middle class women are more prone to change. They are in the process of gradually breaking the caste and class barriers and are working towards better education and economic independence. They are in urgent need of information regarding their new entitlements, namely, Educational opportunities outside the village Job opportunities in both formal and informal sectors Government assistance programs for career advancement within the restriction of traditions Health services including sexual reproductive health Modern child care facilities. Legal provisions to counter sexual harassment, domestic violence and social injustice.

The largest group, which has been marginalized from getting any need based information is the rural poor. Though this is the most active group of women in the rural sector, they have never been specially considered for information dissemination. Information system specially designed for the rural poor has to be need based because this group has been worst affected by the process of globalization. Their information needs will encompass their economic, social and familial roles.
OBJECTIVES OF THE STUDY

Women are the equal beneficiaries to the advantages offered by technology and the products and processes, which are by product of the technology use. However, it should not be confined to elite group of society but to flow to the other segments of women in Indian society. The study intends to know about infrastructure (social, economical, educational etc.) available to different segments of the women and social freedom and opportunities in rural and urban areas. Thus, the objectives are:

To assess ICT infrastructure for women empowerment.
To assess the impact of economic/social/academic background of women workforce in ICT.
To assess the status of ICT in education in terms of policies of scholarships, reservations, business development programmes for self-employment for women.
To assess social and health implication of ICT with reference to women workers.

METHODOLOGY

The study has been conducted in all the districts of the Karnataka State selecting the areas randomly to identify the women folks as respondents. The total sample size was 500. The women include working women, house wife who have exposure in information and communication technology and work as part time, women employees who work in the area of information technology in Government and private organizations, members of self help group who also has exposure in the field of information technology and communication. The sampling units were selected using stratified random sampling scheme.

The study was based on secondary as well as primary data. The secondary data was collected from different offices of Government, semi-Government and other NGOs about the government sponsored schemes for promoting women participation in ICT based services and jobs. The information about different schemes related to ICTs was also collected through personal interviews with planners, implementations and beneficiaries of these programmes. The primary data was collected using structured questionnaire. The questionnaire includes all aspects of socio-economic background of the respondent, their educating, trading, income generation activities, constraints, benefits etc.

After collecting the data from the field, it was processed in computer through the use of statistical packages excel and other software packages. These packages are used in order to make the analysis easy and clear which were also helpful in cross tabulation of the data.

RESULTS AND DISCUSSIONS

With the barriers to engendering knowledge networking processes with the inception of ICT and convergence technologies, it is possible to bring up a significant fraction of women communities in a more symbiotic digital network which focuses on localized information and customized solutions and works on the theme of global technologies for local use. Rural women, however, are still very much in a minority among the beneficiaries of knowledge networking. They still face huge imbalances in the ownership, control and regulation of these new information technologies, similar to those faced in other areas.

ICT and Rural Women’s Life in Karnataka

The information communication technologies have made life easier for both women and men. Though men enjoyed this few decades before, but, a substantial number of rural women has stepped into this sector and enjoy the fruits now-a-days. It is found that more than half of the
respondents (284) viewed they are strongly agree, followed by 169 some what agree with regard to the view that ICT has made their life easier. Only 24 and 19 respondents said that they do not know or can not say, respectively, whereas only 3 respondents said they have not agreed with the idea. In all the area, the research found that the respondents are equally divided with any of the idea. The trend shows that this sector helped the women to increase their awareness about the world and it also allowed them to participate in all the affairs of their work as presented in Table No.1.

Table No.1: Role of ICT in Making Life Easier

<table>
<thead>
<tr>
<th>Location</th>
<th>Strongly Agree (1)</th>
<th>Somewhat agree (2)</th>
<th>Do not know (3)</th>
<th>Disagree (4)</th>
<th>Can’t say (5)</th>
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</table>

Sources: Data compiled from Field Survey.

The rapid expansion of IT has reached to all sections and almost all area of India. Though, rural and remote areas still lagged behind that of the urban areas, still IT marked a remarkable presence in all areas. Table No.2 shows that 224 respondents opined that the information and communication technology is available easily in their area. But, at the same time, near about the same number (200) somewhat agree that it is available easily. A few of them disagree
with availability of ICT in their area. The highest being in district places and the lowest being from rural and under-developed areas.

Table No.2: Availability of Proper Facility of ICT in Your Locality

<table>
<thead>
<tr>
<th>Location</th>
<th>Strongly Agree (1)</th>
<th>Somewhat agree (2)</th>
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Sources: Data compiled from Field Survey.

The ICT is not limited to a particular purpose. It enabled its users for the variety of purposes. Out of the six options presented to the rural women entrepreneurs, 416 respondents said they use it for the communication purpose. It is revealed that only 30 respondents said they use for the information, 12 for the booking of tickets, 27 to get information in different aspects of life and 5 persons said they use it for the purpose of banking and insurance. In the study areas, the women entrepreneurs gave the same opinion about the purpose of use of the ICT as presented in Table No.3.
Table No.3: Purpose of the use of ICT in Karnataka

<table>
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<tr>
<th>Location</th>
<th>Communication</th>
<th>Information</th>
<th>Booking Tickets</th>
<th>Information in different aspects</th>
<th>Banking &amp; Insurance purpose</th>
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Sources: Data compiled from Field Survey.

Source of Information

In the age of advanced technology, people get the information through various sources like television, internet, radio, print media, etc. It is found in Karnataka that more than half (262) of the respondents said the best source of getting information is television. Out of the 500 respondents, 111 opined that they get information from the internet which shows that it is accessible in their locality. It also revealed that it is easier for them to get a wide variety of information from the internet which is not possible to get from other sources. A total of 90 respondents said print media, 33 said radio, which shows that radio is popular among the small section of population. Those who opted for radio, they revealed that it is economical and also it is easier to carry with them and also useful for the entertainment as presented in Table No.4. They said, after the office work, they have to work in house; they don’t get time to watch television or read paper, but radio they listen even if they busy.
Table No.4: Source of Information

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<thead>
<tr>
<th>Location</th>
<th>TV (1)</th>
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<th>Print media (3)</th>
<th>Radio (4)</th>
<th>Other (5)</th>
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Sources: Data compiled from Field Survey.

Non-availability of ICT Infrastructure to Rural Women

The ICT has made a global impact across the world. Like any other sector, rural women are the sufferers in this sector. Though ICT has impacted in the rural sector, but still it is insignificant in compare to their counterparts in cities. This is the area where the Government, NGOs working in the rural areas and civil society should work appropriately. It is also found from the survey that they are deprived sections of the society. As presented in Table No.5, 218 respondents opined that they are deprived of the technologies compared to their counterparts in the urban areas. It is also found that a few number of women entrepreneurs (35) belief that they are not deprived of the technologies.
Table No.5: Rural Women Folk Deprived of ICT Infrastructure

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<th>Somewhat Agree</th>
<th>Do not know</th>
<th>Disagree</th>
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<td>Uttara Kannada</td>
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<td>73</td>
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<td>60</td>
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</table>

Sources: Data compiled from Field Survey.

Thus, the choice of appropriate communication channels should not be reduced to computer and the internet. The high rate of illiteracy, the popularity of television and radio, and the rich oral tradition of the villagers underline the opportunities of an integrative multimedia approach, whenever possible.

**CONCLUSION**

Thus, entrepreneurship and women could always be crucial, because of the socially sanctioned gender stereotyping and socio-cultural background of gender relationship. Entrepreneurship is the medium through which women can become economically independent, gain empowerment, social recognition, and status and gain equality. One of the most important things that a woman needed, in order to be a successful entrepreneur, was society’s commitment to become empowered. It is important for the creation of competent entrepreneurs who catalyze local resources to establish and manage viable ventures in the rural areas, for financial empowerment of rural youth.
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Corruption and the Development of Small-and Medium-Sized Enterprises (SMEs) in Vietnam

Abstract
This paper studies the nature of corruption in Vietnam and its impact on the development of local SMEs. We surveyed the experience of SME leaders on corruption and their perception about the impact of such dishonest behavior on the development of their firms. Eight hundred questionnaires were distributed by mail resulting in 153 usable responses. Taxation, customs and traffic police were most commonly viewed as corrupt. Nearly 30% of enterprises said they had experienced corrupt behavior, but only 7.8% saw corruption as a constraint on their firm’s performance. The results provide an interesting insight about how small- and medium-sized businesses have learnt to adapt and thrive under less developed market and political institutions.

Keywords: SMEs; corruption; development; Vietnam.

Introduction
Business operations under weak or incomplete market and legal institutions have attracted significant interest from many leading scholars (e.g. Kreuger 1974, Bhagwati, 1982, Shleifer and Vishny, 1993, Wei, 1997 and Dixit, 2004). While it is widely accepted that corruption is generally detrimental to economic growth (see evidence for example in Maoro, 1995 and Mo, 2001), economists have identified conditions under which markets may continue to operate reasonably well despite the corrupt environment. Some of these conditions include corruption that is long-term oriented (Dixit, 2004), disciplined by either a monopolist or competition (Shleifer and Vishny, 1993), and predictable (Wei, 1997).

Asian economies are often cited as illustrations of how corruption and growth can sometimes coexist (see Khan and Jomo, 2000). Doner and Ramsay (2000), for example, argue that competitive clientelism (a form of rent-seeking whereby government officials make themselves ‘patrons’ of private enterprises) played a key role in creating an environment in which Sino-Thai business families felt adequately secure in their property rights thus permitting profitable investments to be made. Between 1960 and 1990, Thailand was one of the fastest growing economies in the world and despite the 1997 financial crisis, has today achieved an upper middle-income economy status. The Indonesian economy under Suharto is another example of rapid growth in spite of widespread corruption and cronyism. McMillan (2003) argues that growth was not derailed because the magnitude of corruption was kept under control by Indonesia’s biggest and most powerful stakeholder, the Suharto family.

Another South East Asian economy that has experienced rapid growth despite weak market and legal institutions is Vietnam. After major economic reforms in the 1980s (known as ‘Doi
Moi’ or ‘renovation’), the Vietnamese economy grew at an annual rate of more than seven percent during the early 1990s. Yet, numerous international agencies rate corruption in the country to be very serious. What has been the effect of corruption on Vietnam’s economic performance? Maitland (2001) has argued that widespread corruption in Vietnam discourages investment from multinational enterprises as they are viewed as easy targets by bribe-demanding officials. Few studies, however, have focused on the impact of weak institutions on local small- and medium-sized enterprises. A remarkable exception is the work of McMillan and Woodruff (1999) who use a series of case studies to illustrate how local Vietnamese businesses are able to prevent and resolve disputes in the absence of an effective and reliable court system.

In this study, we provide an updated look on the nature of corruption and its impact on business operations of small- and medium-sized enterprises in Vietnam. We investigate a broader scope of corrupt behavior than studied by McMillan and Woodruff (1999) by looking at numerous facets of the government’s presence in business including taxation, subsidies, regulation and law enforcement. We first supply a brief historical background of corruption in Vietnam in section 2. Section 3 describes the survey we used as our main method of data collection. Section 4 presents survey results. Section 5 discusses the implications of the findings and conclusion.

CORRUPTION IN VIETNAM – A HISTORICAL CONTEXT

In Dynastic Vietnam, dating back to the third century AD, the administrative classes kept a tight grip on power. Farmers and merchants were required to pay taxes to the king as well as extra “tea money” to the regional mandarins. Paying a bribe was considered normal as people viewed it as a prerequisite for living peacefully.

During the French occupation in the 19th and 20th century, ordinary citizens continued to pay bribes which were known as “coffee money” or “lubricant money”, to officials in exchange for public services. The French were defeated by the Vietnamese revolutionaries in 1954, resulting in the division of Vietnam into the North and South. While the North was under a communist regime, the South adopted a market economy. The proliferation of private enterprises coupled with large inflows of American aid money in South Vietnam resulted in frequent corruption scandals uncovered and widely publicized by the media.

North and South Vietnam were reunified in 1975 following the end of the Vietnam War. During the subsequent decade, the country adopted a centrally-planned economy. The concentration of political and economic power in the hands of government officials suggests there were plentiful opportunities for demanding bribes and stealing from public coffers. Limited access to information on this period, however, precludes us from making definite assessments about the nature and magnitude of corruption during this period.

Following decades of economic stagnation under the centrally-planned economy, Vietnam decided to enact major reforms (“Doi Moi”) in the late 1980s. Reorientation toward a market economy together with the opening up for foreign investment helped spur the Vietnamese economy into a major boom. With growing prosperity came increased opportunities for corruption and rent seeking among government officials. By the early 2000s, Transparency International’s Corruption Perception Index consistently indicated that corruption in Vietnam was more serious than in China and India. More recently, ASEAN neighbors such as the
Philippines and Indonesia have both surpassed Vietnam in their efforts to curb corruption (see table 1).

**Table 1**

Corruption perception index of some Asian countries, 2012-2001 (score out of 100, the bigger the better)

<table>
<thead>
<tr>
<th></th>
<th></th>
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<tr>
<td>Philippines</td>
<td>34</td>
<td>26</td>
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</tr>
<tr>
<td>India</td>
<td>36</td>
<td>31</td>
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<tr>
<td>Thailand</td>
<td>37</td>
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<td>32</td>
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<tr>
<td>China</td>
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<tr>
<td>S. Korea</td>
<td>56</td>
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<td>55</td>
<td>56</td>
<td>51</td>
<td>51</td>
<td>42</td>
</tr>
<tr>
<td>Japan</td>
<td>74</td>
<td>80</td>
<td>78</td>
<td>77</td>
<td>73</td>
<td>75</td>
<td>76</td>
<td>71</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>77</td>
<td>84</td>
<td>84</td>
<td>82</td>
<td>81</td>
<td>83</td>
<td>83</td>
<td>79</td>
</tr>
<tr>
<td>Singapore</td>
<td>87</td>
<td>92</td>
<td>93</td>
<td>92</td>
<td>92</td>
<td>93</td>
<td>94</td>
<td>92</td>
</tr>
</tbody>
</table>

Source: Transparency International

Despite these problems, private enterprises in Vietnam, most of which are SMEs, have exhibited remarkable resilience (see table 2). While the number of state-owned enterprises has been declining, the number of private enterprises has been growing at a rate of between 17 and 33 percent annually during the past several years. The growth of foreign-invested enterprises has been similarly healthy. The aim of this research is to better understand SME owners’ perception about the current situation of corruption and how such illegal behavior affect the day-to-day operations and overall performances of their businesses.

**Table 2**

Growth of enterprises

<table>
<thead>
<tr>
<th>Enterprise Type/ growth</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>-State-owned Enterprises</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>-9.3%</td>
<td>-5.7%</td>
<td>-4.7%</td>
<td>1.1%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>-Non-state Enterprises</td>
<td>123,392</td>
<td>147,316</td>
<td>196,788</td>
<td>238,932</td>
<td>280,762</td>
</tr>
<tr>
<td>Growth</td>
<td>17.3%</td>
<td>19.4%</td>
<td>33.6%</td>
<td>21.4%</td>
<td>17.5%</td>
</tr>
<tr>
<td>-Foreign investment enterprises</td>
<td>4,220</td>
<td>4,961</td>
<td>5,626</td>
<td>6,546</td>
<td>7,254</td>
</tr>
<tr>
<td>Growth</td>
<td>14.1%</td>
<td>17.6%</td>
<td>13.4%</td>
<td>16.3%</td>
<td>10.8%</td>
</tr>
<tr>
<td>-Total enterprises</td>
<td>131,318</td>
<td>155,771</td>
<td>205,732</td>
<td>248,842</td>
<td>291,299</td>
</tr>
<tr>
<td>Growth</td>
<td>16.2%</td>
<td>18.6%</td>
<td>32.1%</td>
<td>20.9%</td>
<td>17.1%</td>
</tr>
</tbody>
</table>

Source: General statistics office

Along with its updated Anti-Corruption legislation (most recently updated in 2012), the Vietnamese government has setup numerous organizations to fight against corruption such as The Central Steering Committee for Anti-Corruption, the People’s Procuracy, and the...
Government Inspectoral. Both central and local governments have also gradually improved the salary of civil servants in their efforts to reduce incentives to take bribes.

DATA COLLECTION AND ANALYSIS

Following previous studies of corruption, we focus on perception to gauge the magnitude and effects of the phenomenon. Paper questionnaires were mailed to leaders of small- and medium-sized enterprises. The first section asked about the types of corruption that influenced their business activities. Based on a 10-point Likert scale (0 negative, 5 neutral, 10 positive), the company owners were then asked to rate the overall effect of corrupt officials on their company’s performance.

Utilizing past surveys (e.g. IFC and World Bank, 2009) and the authors’ experiences, we isolated nine areas of corruption to investigate in our survey. We postulate that business owners can pay bribes to expedite or obtain favorable treatment when 1) paying income taxes 2) passing through customs 3) obtaining loans from state or commercial banks 4) circumventing environmental regulation 5) transporting products or material 6) registering a new business 7) obtaining business permits 8) obtaining construction permits, and 9) satisfying land procedures.

Eight hundred questionnaires were mailed to manufacturing SMEs located in Ho Chi Minh City, and the provinces of Dong Nai, Binh Duong and Long An (the key industrial areas of Southern Vietnam). We focused on manufacturing firms because they represent the majority of registered enterprises in Vietnam. They also tend to be rather stationary, thus making them vulnerable to corruption. In the end, 153 questionnaires were returned by the enterprises owners, directors, managers or chief accountants. The composition of the participating businesses is tabulated in Table 3. The proportions of different types of firms do not deviate significantly from the overall composition of businesses in these areas.

Table 3
Summary of the sampled enterprises

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food processing</td>
<td>12</td>
<td>7.8</td>
</tr>
<tr>
<td>Fabric factories</td>
<td>18</td>
<td>11.8</td>
</tr>
<tr>
<td>Garment factories</td>
<td>14</td>
<td>9.2</td>
</tr>
<tr>
<td>Construction material</td>
<td>15</td>
<td>9.8</td>
</tr>
<tr>
<td>Construction business</td>
<td>22</td>
<td>14.4</td>
</tr>
<tr>
<td>Fabricated metallic products</td>
<td>25</td>
<td>16.3</td>
</tr>
<tr>
<td>Non-metallic products</td>
<td>38</td>
<td>24.8</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>9</td>
<td>5.9</td>
</tr>
<tr>
<td>Total</td>
<td>153</td>
<td>100</td>
</tr>
</tbody>
</table>

SURVEY RESULTS

From the returned surveys, 29.4 percent of firm leaders stated that they had experienced corrupt acts while managing their enterprises. Among the nine areas of business, taxation
Corruption and the Development of Small-and Medium-Sized Enterprises (SMEs) in Vietnam

(12.4%), customs (9.8%) and transportation (9.8%) were viewed as most corrupt, while business establishment procedures (2.6%) was viewed as the least corrupt (see Table 4).

Table 4

Does corruption in the following activities affect your normal business operations?

<table>
<thead>
<tr>
<th>Corruption type</th>
<th>No Frequency</th>
<th>No Percent</th>
<th>Yes Frequency</th>
<th>Yes Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation</td>
<td>134</td>
<td>87.6</td>
<td>19</td>
<td>12.4</td>
</tr>
<tr>
<td>Customs</td>
<td>138</td>
<td>90.2</td>
<td>15</td>
<td>9.8</td>
</tr>
<tr>
<td>Bank loans</td>
<td>143</td>
<td>93.5</td>
<td>10</td>
<td>6.5</td>
</tr>
<tr>
<td>Environment protection</td>
<td>146</td>
<td>95.4</td>
<td>7</td>
<td>4.6</td>
</tr>
<tr>
<td>Transportation</td>
<td>138</td>
<td>90.2</td>
<td>15</td>
<td>9.8</td>
</tr>
<tr>
<td>Establishment procedures</td>
<td>149</td>
<td>97.4</td>
<td>4</td>
<td>2.6</td>
</tr>
<tr>
<td>Business permission</td>
<td>148</td>
<td>96.7</td>
<td>5</td>
<td>3.3</td>
</tr>
<tr>
<td>Construction procedures</td>
<td>146</td>
<td>95.4</td>
<td>7</td>
<td>4.6</td>
</tr>
<tr>
<td>Land procedures</td>
<td>140</td>
<td>91.5</td>
<td>13</td>
<td>8.5</td>
</tr>
</tbody>
</table>

When asked to evaluate the effect of corruption on their business performance 7.8 percent believed corruption had a negative impact, 10.5 percent a positive impact, and 81.7 percent said neither (figure 1). The mean of firms’ evaluation about corruption effect to their performance is 4.974 with the standard deviation 0.99; this means the perception of leader’s enterprises shows that there no effect of corruption to their performance. There are the means of EBT, ROA, ROE, and general performance of enterprises. Regression analysis indicated that there was neither a sizeable nor significant relationship between the ratings of corruption severity and self-evaluated business performance.

Figure 1

Business leaders views about the effect of corruption on performance
DISCUSSION AND CONCLUSIONS

We found the results to be in good agreement with intuition. Activities that require business people to regularly interact with government officials, such as paying taxes or dealing with traffic police, tend to generate a perception of high corruption. On the other hand, activities that are required less often, such as obtaining a permit to start a business or build a factory are perceived as less corrupt. One exception is land procedures, which is perceived as relatively corrupt (land officially belongs to the state), probably due to the fact that land is often used as collateral for bank loans thus increasing the frequency in which business people are faced with land-regulation issues (land using requires government special permission).

While the majority of small business owners (81.7%) do not feel that corruption significantly affects their business, the remaining group is about equally split between seeing corrupt officials as an opportunity (10.5%) and a threat (7.8%). Perhaps, corruption allows one group of small business to gain special privileges at the expense of another group of small businesses.

The majority of SMEs reporting that corruption has no effect on their businesses probably overlooked one important fact – that corruption reduces foreign investment (Maitland, 2001). In highly corrupt business environments, foreign multinationals are often treated as outsiders that can be easily exploited. It is possible that corruption acts as an entry barrier for foreign competition thus indirectly benefiting local SMEs. However, Asian investors have learnt to adapt quickly in Vietnam.

While it is possible that corruption is remunerative for some local businesses in the short term, extensive economic theory and empirical research overwhelmingly concur that corruption harms a county’s prosperity in the long run. Economic growth is hurt not only from smaller foreign investment, we also know that corruption results in inadequate provision of important public goods (e.g. infrastructure, law enforcement, environmental protection) and wasteful allocations of limited resources in order to keep such illicit activities secretive (Shleifer and Vishny, 1993). Any policy that can effectively reduce corruption in Vietnam is therefore certainly growth-promoting.

In Vietnam, an Anti-Corruption Law was issued in 2005 and amended in 2012 with stronger punishments. Other legislation relating to businesses such as laws governing income taxes, importing/exporting, environment protection, and land usage have also been upgraded. Anti-corruption organizations have been established both at the central and provincial levels. The media is also playing a more active role in uncovering corrupt activities by government officials. Finally, between years 2000 and 2012, the median salary of government officials has been increased four times (from an average of US$40 to US$200 per month). Previous research has shown that increasing salaries for public sector workers may be one effective strategy in curbing corruption.

In conclusion, our research suggests that local SMEs have so far adapted quite successfully to widespread corruption in Vietnam. While bribery and dishonesty of officials may not have been as detrimental as many Westerners perceive, strengthening key economic and legal institutions to curb corruption will likely be a key prerequisite for Vietnam to achieve long term economic development.
REFERENCES


The Impact of Applying Information Systems in Lebanese Hospitals on Employees’ Motivation and Job Satisfaction

ABSTRACT

Information technology occupies nowadays a central role in the life of individuals where technology became a major factor leading to success and giving organizations a competitive edge (Tabak and Jain, 2000). Lebanese healthcare organizations are considered to be among top Lebanese organizations and account for almost 4.9% of the country’s GDP (Mottu & Nakhle, 2010). The sector is considered to be one of the stable economic sectors that preserved its operating status even during the seventeen years of civil war. The introduction of information technology to the healthcare services sector has altered the way doctors, nurses and staff, perform their daily work duties, and the way they perceive their jobs. This paper will discuss “the impact of applying healthcare information technology on employee’s motivation and job satisfaction” and for this purpose a review of literature is conducted where major indicators affecting the health sector have been identified.

Keywords: Organizational behavior, Job Satisfaction, Hospital Employees

INTRODUCTION

In our daily lives today, we rely more on innovated technology to remain connected, using mobile telephony, computers and the internet, wireless systems and networks, and other innovated tools, than ever before in the history of mankind. These modern tools are ubiquitous and widely available. They are affecting several aspects of our human life. Information technology is becoming today a central phenomenon affecting the way we operate, communicate, and perceive reality at home as well as in the work environment. However, the efficiency of these systems relies on our acceptance as users, to use them. This increased electronic infiltration into every aspect of our environment has undoubtedly also impacted the healthcare services, providers and users. In this sector, information systems are developing at an unprecedented speed, while nurses, medical and administrative staff are overwhelmed with their workloads.

This working paper discusses the literature on the impact of successfully applying healthcare information systems on employees’ motivation and job satisfaction.

LITERATURE REVIEW

Scholars stressed that for a successful information system (IS), system guidelines should be followed. In this context, Horsky, et al. (2005) emphasized that “Clinical systems built according to such guidelines would allow expedient, faster, and less error-prone user
interaction” (p.265). Among the factors affecting healthcare IS success, is training and fit technology during the system installation. In their study, Kim and Lee (1986) concluded that workers’ input should be measured during system implementation, to see to what extent end users are compatible with the training on the system, taking into consideration the instrumentality level of workers’ voice opportunities, ranging from no voice at all to near code termination (Lawrence, et al., 2002). Training method is to be the first step in implementing the system inside an organization (Simon, et al., 1996), affecting mainly task uncertainty (Kim, et al., 1998), and task complexity. Furthermore, Venkatesh (1999) reports that training is an important factor for shaping motivation through “driving perceptions and behavior” (p.242). Training should go side by side with another factor, namely “fit”, where a fit technology will boost organizational performance, and is based on two main criteria, a) user’s needs, and b) users’ beliefs and attitudes (Holden and Karch, 2009). If such factors are met at the workplace, then organizations and specifically hospitals will be able to have a competitive edge, relying on the workforce as a backbone. This would lead to a successful diffusion of innovation that creates a positive impact on the organization’s employees, through a powerful and easy to use computer system, thus convincing users how beneficial the system is (Rogers, 2003). Such implementation is not risk free; many organizations faced system crashes and failures during the installation phase.

Scholars have concluded and reported that there is an impact for psychological and organizational issues that go along with technological issues in information system failure (Cheng, Ngai, and Au, 2006). Cheng, Ngai, and Au (2006) concluded that user’s resistance plays a major role in such failures, while others stressed that individual characteristics play a great deal in system failure where employee skills and performance, training and knowledge, are essential for a system success (Gronhaug and Venkatesh, 1991). In order to avoid such failure, systems should go through a specific set of measurement, where error reduction is considered as a basic factor (Ammenwerth, et al., 2008). Moreover, DeLone and McLean designed in 1992 a model that gained wide acceptance and reputation (Figure 1). They postulated that in order to achieve system success, IS implementing teams must review a six points checklist. First comes the information quality, second, system quality, third, use, fourth, user satisfaction, fifth, individual impact, and finally the organizational impact. This model has been challenged by many scholars and was adjusted in 2003 giving service quality a great importance in the model.

**Figure 1 – DeLeon and McLean’s Model for IS Implementation Success**

Applying information systems has been identified to have a dual impact on the organizations (Hospitals) as well as on the employees and medical personnel. In this context, automated information systems are becoming more and more integrated into healthcare services today. Today IS and the attached tools and machinery, can assist in saving lives (Amarasingham, et al., 2006), decision-making, diagnostic effort, and medical treatment monitoring. IS “affects the planning design, decisions and results” (McMutrey, et al., 2002, p. 279) where information technology has become the major source for strategic planning within the organization, producing “information efficiencies that allow fewer levels in the hierarchy to handle as much more problem solving and decision-making, resulting in flatter organizations” (Dewett and Jones, 2001, p. 330); thus decreasing staff workload (Han, et al., 2005).

Information systems have their impact on medical personnel too. Technology acceptance is reported to be a main catalyst leading to employees’ satisfaction. The literature reviewed
shows that whenever a high level of system acceptance is achieved, this can be equivalent to a system success (Igbaria and Tan 1997; Seddon 1997) and for that purpose many scholars studied the factors leading to system acceptance.

Davis (1986) defined the widely used theory called “Technology Acceptance Model (TAM)” and enhanced it later on to become TAM2. This theory was based on the “Theory of Reasoned Action (TRA)” initiated by Fishbein and Ajzen in 1975. TAM stresses mainly on beliefs, norms, attitude and intention to use the system, which lead at the end into the actual behavior. Hence, system acceptance and adaptation toward the system will eventually lead to newer ways of communication (Orlikowski, 2000).

Moreover, in order to study the information systems’ impact on employees’ motivation and job satisfaction inside Lebanese hospitals, the main motivational theories and the job satisfaction factors should be also taken into consideration. Among these motivational theories are four that are discussed in the reviewed literature; a) the “Expectancy Theory” where the Motivational Force = (Expectancy)*(Instrumentality)*(Valence) (Victor Vroom, 1964); b) Abraham Maslow’s “Hierarchy of Needs” that classifies human needs into five groups in a triangular shape from the most basic need going up into the least, namely, physiological, safety, social, esteem and self-actualization (1943); c) Frederick Herzberg’s “Two-Factor Theory” based on hygiene and motivator factors (1959); and finally d) the “Theory X and Theory Y” that divides employee attitude into two parts, one that is a positive attitude and the other a negative attitude (McGregor, 1960).

Moreover, the literature shows many job satisfaction factors that come side by side with the motivational theories and that play the role of shaping employees’ attitude toward the job and the information system. These job satisfaction factors are classified into three main groups: the first one includes the demographic factors including gender and age where Reiner and Zhao (1999) concluded that a significant impact of age exists on job satisfaction. The second group is the intrinsic factors, like the job title and promotion where Regan and O’Connor (1994) recorded that promotion has high influence on employees’ attitude other intrinsic factors like work location, work stress and emotional exhaustion have been studied by many researcher to see the degree they might create on employees attitude (Kuo and Chen, 2004; Rose, 2003; Steijn, 2002); and the third group includes the extrinsic factors like training, communication with the colleagues, supervision at work and salary and benefits. These extrinsic factors were also tested to see their impact on staff (Gordon, 2002; Arnold, 2000; Farrow, 1997; Ting, 1997). All these factors could affect employees’ motivation and job satisfaction in Lebanese hospitals.

**MODEL & RESEARCH METHODOLOGY**

Through the literature review, the researcher identified a gap. Based on this gap, the researcher put forth a hypothetical model to test through conducting a field study in the Lebanese hospitals that have implemented information systems. Constructing such a model highly depends on the inter-relation between the dependent and independent variables where we can identify the track of the research and extend the literature (Westphal & Khanna, 2003), “address this gap in the literature” (Musson & Tietze, 2004, p. 1301), and thereby to “fill this gap” (Lüscher & Lewis, 2008: 221).

Figure 2 – Suggested model to test.
This model (see figure 2) includes an independent variable the “hospital information systems’ implementation success” and a dependent one - the “employee job motivation and satisfaction” - with one mediator variable that is the frequency of use of the IS, and three moderating variables. The suggested moderators are the training impact, the user participation and the usefulness and ease of use of the system. This figure takes into consideration that there is a successful implementation for the information system inside the Lebanese hospitals.

**Hypothesis:**
Thus the formulated hypotheses for testing in this research exercise are formulated below:

(H1) There is a positive relationship between the healthcare information system implementation success and the employee frequency of use of the system.

(H2) There is a positive relationship between the information system frequency of use and the employees’ motivation and job satisfaction.

(H3) Employees’ training moderates the relationship between the information system usage level and the frequency of use of this system at work.

(H4) User participation moderates the relationship between information system use from one side and employees’ frequency of use rate from the other.

(H5) Information system perceived usefulness and ease of use moderate the relationship between the information system usage and the frequency rate of use of the system at workplace.

Through investigating the existence, if any, intensity and direction of these relationships, the researcher aim at studying the impact of both the mediator and moderator variable and hence answer the following research question:

*What is the impact of successfully implementing information systems in Lebanese hospitals on employees’ motivation and job satisfaction?*

**Framework**
For answering this research question the researcher will conduct the survey in the Lebanese healthcare environment, on both hospital medical and administrative teams of employees, including medical staff. The focus of the study is on Lebanon for many reasons. First, its healthcare sector is a significant sector in term of GDP contribution (Mottu & Nakhle, 2010). Second, after seventeen years of civil war (1975-1992), this sector was able to re-earn its market position as a competitor and be a competitor among the best healthcare facilities of the Middle East, due to its very qualified medical and nursing staff and to the service orientation of its administrative staff (Sfeir, 2007). Third, the health sector of Lebanon accounts for 21,400 employees in total, divided into 23% males and 77% females (Syndicate of Lebanese hospitals, 2011), and more than 9,000 physician (Sfeir, 2007). These 153 hospitals in total are located in 5 different districts: Beirut, Mount of Lebanon, North, South and Beqaa and include primary and tertiary healthcare institutions. However, the interest of the researcher is in primary healthcare facilities where innovation and technological advancement are embraced and adopted for improved medical care.

**Methodology**
This research will be using the quantitative method, based on the distribution of a questionnaire. This questionnaire will be self-administered and be of 3 parts. The first part pertains to demographic factors including years of experience and the estimated working hours on the information system. The second part will be composed of the 36 questions designed, developed and measured by Spector (1997) and approved to be used for educational research. These questions will measure the respondents’ feedback using a Likert
6-scale. The researcher has chosen this scale because “this type of response scale gives you a wider range of possible scores and increases the statistical analysis that are available to you” (Pallant, 2007, p.9). The last part of the questionnaire will be also using the Likert 6-scale and will be measuring a number of factors. These are a) knowledge, participation and interaction with the IS; b) perceived ease of use of the IS; c) the perceived usefulness of the IS; d) the attitude towards and intention to use the IS; and e) the attitude towards using the hospital IS.

The aim of the researcher is to collect a usable sample of 300 responses, in order to respect the validity of data, and for generalizability of results. Moreover, “The larger the sample size, the less likely it is that we would fail to observe a significant behavior or record a perception” (Arnold and Epp, 2006). The researcher decided to aim for a sample size of n=300, as this is considered to be a good sample for a population of N=21,400, representing 1.4%, where according to Griffin and Hauser (1993), N of 30 is considered to be a reasonable starting point for a quantitative data sample collection revealing a full range of potential behaviors in the population and when N is greater than 30 it reduces the probability of missing a perception with a 10% incidence to less than 5%, assuming random sampling (Griffin and Hauser, 1993).

For this purpose, and in order to guarantee representativeness and inclusion as well as randomness, the researcher will target as many as the 40 large hospitals, following the criteria set by the Lebanese Ministry of Health on hospital evaluation. In these hospitals, a large number of questionnaires will be distributed using a network of colleagues and friends. Responses will be gathered in confidentiality and without reference neither to persons nor to specific hospitals. All the responses will be entered onto SPSS 19.0 for cleansing and analysis.

CONCLUSION

The researcher needs to finalize the data collection process. Following Okpara (2004)’s research steps, the plan is to use the SPSS 19.0 software in order to analyze the collected data. However, the researcher is expecting to find a strong correlation between the information systems’ implementation success and employees’ motivation and satisfaction passing through the moderator and mediator variables defined previously. This prediction is not based on any scientific factors at the moment, it is just a prediction based on the work experience of the researcher in the Lebanese hospital sector.

What remains to see is whether the above postulated hypotheses do actually materialize, and whether the successful implementation of an innovation at work (IS), with the proper user involvement through participation; usefulness and ease of use perceptions; and proper training, does lead to employee job satisfaction and motivation in the Lebanese hospital sector.

References


FIGURES

Figure 1 – DeLeon and McLean’s Model for IS Implementation Success

![DeLeon and McLean's Model for IS Implementation Success](image)

*Source: DeLeon and McLean (2003)*

Figure 2 – Suggested model to test.

![Suggested model to test](image)

*Source: Authors’ own work.*
Gender Moderating the Relationship between Pay and Job Satisfaction of Extensive Information System Users

Abstract

Innovation has always introduced new ways of doing things. It has generally changed the way we look at our job. This empirical study aims at testing the existence and intensity of the moderating role of gender on the relationship between pay and job satisfaction among the extensive users of information systems at work in Lebanon. 620 respondents successfully completed a valid, reliable questionnaire from Lebanon in the Middle East. The results clearly show a difference in the relationship of pay to job satisfaction among genders.

Keywords: Gender, Pay, Job Satisfaction, Information system users

INTRODUCTION

Although the topic of job satisfaction has been visited and revisited by many, it remains of interest to researchers due to its direct relationship to employee productivity (Ostroff, 1992), wellbeing, and recruitment potential (Bender and Van de Looij, 1994). The job satisfaction of those employees constantly using innovated tools and technologies at work, remains under scrutiny due to its continued evolution and development. As new information technology unfolds, more and more businesses revert to these innovations hoping to catch competitive advantages leading to sustainable profitability. Furthermore, it is not uncommon for a researcher to report different findings about the relationship between gender and job satisfaction in general (Wooden and Warren, 2004). This, as “there are likely to be systematic country differences [about job satisfaction]” (OECD Employment Outlook, 2001 p.102). Therefore, our interest in investigating the moderating role of gender on the relationship between pay and job satisfaction among the employees using information systems extensively at work, in Lebanon.

Our survey starts with a review of the related literature, followed by describing the methodology used in the field study. The third part includes the results of the analyzing the collected responses, followed by a discussion of these results, and a conclusion.

LITERATURE REVIEW

Today the various Lebanese formal business sectors employ more than 90,000 persons, that is about 2.2% of the population. Among them are a large number of employees who use information systems at work for more than 50% of their working-time. This innovation track is a vital one, and needs to remain active in both recruitment and employee development in order to remain afloat in an ever increasing competitive environment. The importance of understanding the factors that affect the productivity, well-being and tenure of these high-development employees is of interest to both researchers and the financial business world.
In the following we shall review the literature on the factors under study, namely gender, pay, and job satisfaction in order to set the framework for the research.

Job satisfaction is an effective and emotional response toward various facets of one’s job. It plays an important role in labor market outcomes. Thus, has been widely investigated by researchers and practitioners from various fields such as organizational psychology, public administration, and management. Job satisfaction has been correlated with motivation, job involvement, organizational citizenship behavior, organizational commitment, life satisfaction, mental health, job performance, absenteeism, turnover and perceived stress (Spector, 1997; Judge, Parker, Colbert, Heller and Ilies, 2001).

The relationship between gender and job satisfaction has been frequently examined in various organizational settings. However, the results of many of the studies have been contradictory. Some studies have shown women to be more satisfied than men (Bartol and Wortman, 1975; Murray and Atkinson, 1981; Hodson, 1989; Sloane and Williams, 1996; Clark, 1996; Clark, 1997; Sousa-Poza and Sousa-Poza, 2000; OECD, 2001; Kaizer, 2005), thus “pointing to the existence of a gender-job satisfaction paradox” (Hogan & Kaiser, 2005, p.12) in the European job market. Other researchers have concluded that men are more satisfied than women (Forgionne and Peeters, 1982; Jagacinski, 1987; Chiu, 1998). Still others have reported no significant difference between genders in relation to pay satisfaction (Brief, Rose and Aldag, 1977; Mottaz, 1986; Brush, Moch and Pooyan, 1987; Tait, Padgett, and Baldwin, 1989; Greenhaus, Parasuraman, and Wormley, 1990; de Vaus and McAllister, 1991; Witt and Nye, 1992; Benders and Van de Looij, 1994; Ugorji, 1997; Smith, Smits, and Hoy, 1998; Mettle, 2002). And finally, some have reported equal importance of pay in the job satisfaction of both genders (Wooden and Warren, 2004). Yet, pay level is considered one of the main job satisfaction determinants (Employment in Europe-2001, 2001). In Europe, the important of pay is reported to be significant by more than 70% of the employees (Employment in Europe-2001, 2001). The importance of pay in the general satisfaction of employees on the job is derived from the fact that the general definition of any job embodies effort expanding in exchange for material rewards (Rose, 2003).

Research on the relationship of pay to job satisfaction is abundant and much of it is derived from the perceived fairness explaining salary differences, as employees value equity on the job as well as reward fairness (Parent-Thirion et al., 2007). Evidence on what men and women look for in a job is inconsistent (de Vaus and McAllister, 1991). While Benders and Van de Looij (1994) reported no relationship, Rose (2003) found weak evidence that supports the linear relationship between salary and job satisfaction. Intrinsic and extrinsic work orientations represent work-related preferences to value specific types of rewards inherent in the work environment (Malka and Chatman, 2003). A variety of results are reported hereeto (Neil and Snizek, 1987; Loscocco, 1989). However, combining the results of different studies with meta-analysis from different economic sectors, resulted in mean correlations of almost zero across tens of studies, that is, both genders having a similar job satisfaction level (Brush, Moch and Pooyan, 1987; Witt and Nye, 1992; Spector, 1997), while recent European studies report that pay fairness is at the core of the high level of dissatisfaction in the workplace in general (CEC, 2001), as employees place more importance on pay fairness than on actual income earned (Parent-Thirion et al., 2007). The difference in on-job-satisfaction levels among genders is explained to be first due to differences in expectations (Brush, Moch and Pooyan, 1987; Witt and Nye, 1992), and second, to differences in values and of perceptions of equity (Witt and Nye, 1992).
Moreover, a previous study on the Lebanese commercial banking sector, found that the level of employee satisfaction with pay is low and that it does not specifically relate to gender or any specific other factor (Crossman and Abou-Zaki, 2003). More recently a study by The World Bank (2009) revealed that gender discrimination in pay is prevailing in most of the economic sectors in Lebanon. More specifically it reports an average gender pay gap of 13% in general and about 22% in the services sector, where the gap is absent for the younger employees (age under 40). Furthermore, a study result by Maamari & Smith (2012) on the IS users in the banks of Lebanon reveals that females are generally more satisfied on the job than males. As a result of analyzing all of the above, the researcher is suggesting the following model (Figure 1) for testing, where gender is suggested to moderate the relationship between pay and job satisfaction of extensive information system users in Lebanon.

**Figure 1  Suggested model**

**Hypotheses:**

H1 There are gender based differences in the job satisfaction of the extensive information system using employees of Lebanon.

H2 Gender moderates the relationship between pay and job satisfaction. The higher the pay the higher the level of job satisfaction for female employees extensively using information systems at work.

**METHODOLOGY**

**Sampling and Population**

The sampling from the population of extensive information system using employees in Lebanon was conducted by the researcher in the commercial banks of Lebanon, in line with the information published by the banking authorities. The population of commercial bank employees as reported by the Association in its 2010 end of year report includes 21,337 employees of different gender, age groups, and education. The detailed characteristics of the population distribution are summarized in Figure 2,3 and 4 below:

**Figure 2: Population distribution of the commercial banking sector in Lebanon – Gender and Age.**

**Figure 3: Population Distribution of Staff by Educational Level**

**Figure 4: Population Distribution of Staff by Job Categories/Rank**

In order to guarantee validity of results, the sample size as well as sample representativeness were taken into consideration. The accuracy of the results depends on three essential factors, first the sample size, where the larger the sample the more accurate the results would be, and second, the variability of the data, or what is commonly referred to as data spread (McClave, Benson, and Sincich, 2005), and finally on the method applied in sampling. Furthermore, there are two required conditions for a large-sample validation with a confidence interval. These conditions are first random sampling, and second that the sample size should be greater than 30 (n ≥ 30) (McClave, Benson, and Sincich, 2005). For the above reason, and in order to have a confidence level of 99%, we considered the benchmark of 500 respondents to be an acceptable level, where these 500 surveyed employees shall represent more than 2.83% of the total population.
For the sampling process, the researcher considered the different factors that might affect the survey results and decided to distribute the measure in the six administrative segments in Lebanon. These six locations are Beirut (the capital), South Lebanon, North Lebanon, Mount Lebanon, Nabatieh, and Bekaa. The reason behind this distribution lies in both the banking sector geographic spread, and the researcher’s sample selection need to be representative. The process of data collection took approximately 16 weeks, beginning from mid October 2012. During this period the researcher and his team were visiting an average of 5 banking institutions a day, with an additional average of 8 follow-up phone-calls and appointment scheduling, daily.

**Basic Sample Description**

To satisfy ourselves with the level of sampling distribution, and referring to the Central Limit Theorem (McClave, Benson and Sincich 2005), a large sample size was sought. Our sample of 620 usable responses was derived from a total population of 21,337 employees. This population was composed of 54.9% males and 45.1% females, while the respondents sampled were 309 males (49.84%) and 311 females (50.16%), all of whom do use information systems at work extensively, i.e. more than 75% of their work-time. Figure 5 summarizes a set of comparative demographic highlights comparing the population to the sample.

**Figure 5- Major demographic highlights of the population and sample of respondents.**

The respondents’ educational specialization is distributed into a majority of business studies (83.2%) and the balance from other disciplines. The respondents’ general banking work experience distribution is divided into four categories. As for the process of data collection, the scale used was validated by previous research (Spector, 1997). Therefore, there remains no need to further elaborate on this point, but to move forward into reporting the research results and the testing of the hypotheses.

The total number of responses collected was 649, out of which 620 were maintained for the data analysis. The responses of bank employees were collected by hand by one of three means: by the researcher himself (32%), or by one of the researcher’s assistants (60%), or by a fellow researcher who is currently employed by a bank and took charge of collecting some of the responses (8%); while responses from managers were collected by the researcher himself only. All responses were collected without requiring the names or contact information from the respondents, thus preserving anonymity and confidentiality. The sample of respondents is described in figures 6, 7, 8 and 9 below and compared to the population figures.

**Figure 6: Respondents’ descriptive statistics – Gender and Age Distribution vs Population**

**Figure 7: Respondents’ descriptive statistics – Educational Level Attained vs Population**

**Figure 8: Respondents’ descriptive statistics – Education Specialization vs Population**

**Figure 9: Respondents’ Descriptive Statistics - Job Categories/Rank vs Population**

The statistical results show that all the respondents are full-time employees, with the majority being regular employees (58.55%), and that the large majority holds university degrees (83.21%). The largest proportion of the sample is made up of respondents whose work experience in the Lebanese commercial banking sector does not exceed 5 years (48.72%) while those with 6 to 10 years represent 21.61%. The respondents whose jobs fall under the category of ‘support’ are back-office and IT staff.
**Scale Development and Validation**

The creation of the sample items in both parts I and II of the questionnaire/tool/scale used, was based on the suggestions derived from the reviewed literature. The literature provides a large list of scales available including the Job Descriptive Index (JDI; Smith, Kendall, and Hulin, 1969), the Minnesota Satisfaction Questionnaire (MSQ; Weiss, Dawis, England, and Lofquist, 1967), the Job Diagnostic Survey (JDS; Hackman and Oldham, 1975), and Job Satisfaction Survey (Spector, 1985); among many others. The researcher decided to use Spector’s (1985) Job Satisfaction Survey due to its simplicity, and shortness, in addition to its being used in many countries and approved for use in non-profit oriented scientific research.

**The purification of measure**

For the purpose of purifying the measure, the researcher conducted an initial exploratory factor analysis and a principal components factor analysis (PCA).

**Results of the initial exploratory factor analysis**

An initial exploratory analysis including all the variables representing job satisfaction was performed using SPSS version 19.0. The factor analysis was done for every group of scale items relating to each of the hypotheses.

**Factorability of data**

The first step in the analysis was to check for the factorability of the data. For this purpose two complementary tests are run, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy, and the Bartlett’s test of sphericity. The KMO index ranges from 0 to 1, with 0.6 being suggested by Tabachnick and Fidell (2007) as the minimum good value for factor analysis, whereas for the Bartlett’s test of sphericity (p < .05) is necessary for the factor analysis to be considered appropriate. The results of KMO index were 0.678, and the Bartlett’s Test of Sphericity showed significance at p=0.000.

The Eigenvalues of the components with a factor above 1.0, show that all the item scales included in the respective factors’ testing, do explain to a moderate or high extent the variances. Thus, the Eigenvalues are considered to be acceptable. As a result of the above, and as the level of significance is small, we can reject the null hypothesis that variables are uncorrelated, and say that the data are factorable.

**Estimation of Commonalities**

Commonalities help highlight how the creation of the variables is affected by the different factors. In other terms, “how much of the variance in each item is explained. Low values (e.g. less than .3) could indicate that the item does not fit well with the other items in its component” (Pallant, 2007, p. 196). Usually only variables with a commonality exceeding 0.500 are kept. The results of the commonalities of the measure’s components relating to each hypothesis were analyzed using SPSS version 19.0, and using the Extraction Method: Principal Component Analysis. Cronbach’s alpha value is 0.720.

**The Assessment of Validity**

The validity of the Job Satisfaction Scale used in the measure “is provided by studies that compared different scales with one another on the same employees. (...) The JSS has also been shown to correlate with a number of scales and variables that have been shown in the literature to correlate with other job satisfaction scales (Spector, 1997, p. 11), while Pallant (2007) explains validity as involving the collection of empirical evidence concerning the use of a scale.
The preceding steps allowed the production of a purified and internally consistent scale. Yet, these steps alone do not guarantee the validity of the construct (Nunally, 1978; Churchill, 1979), therefore we need to assess the different types of validity, namely content validity, construct validity and criterion validity.

It is worth mentioning that the researcher has put every effort possible in meeting the requirements of scientific research in the process of construct domain and scale construction, in order to guarantee content validity. The related literature on job satisfaction and related fields has been reviewed to the extent possible. Then, three interviews with information system managers were conducted. These two initial steps helped in formulating the items. Moreover, a pre-test of the scale of the quantitative survey was carried out on three groups of respondents in order to ensure coherence and understanding of the items of the scale. In conclusion, the objective of content validity, criterion validity and construct validity have been reached.

**RESEARCH RESULTS AND HYPOTHESES TESTING**

The analysis of the research results reveals a number of facts on the employees’ gender pay satisfaction of the high tech users in the commercial banking sector of Lebanon.

The correlation of gender to the demographic factors of age, educational level attained, educational specialization, work experience in the banking sector in general and in the current bank, as well as job satisfaction, all revealed low negative correlations that are not significant, although being at a Sig. =0.000. While job category or position revealed a positive correlation which is also not significant.

The correlation test between the different scale items revealed comparable results between both male and female respondents pertaining to pay satisfaction, at a significance level of 0.000.

The regression analysis of the different scale items revealed that female respondents perceive a higher positive relationship between pay and job satisfaction.

To test hypothesis H1, a correlation was performed using SPSS 19.0. The results of the correlation show that gender is correlated to job satisfaction among the high tech using employees of the Lebanese commercial banking sector. The results for male employees among them show a moderate correlation with R²=.486, while for female employees R²=.616 both at a Sig.=.000 (2 tailed). Thus H1 is accepted.

The test of hypothesis H2, a regression analysis was run using SPSS 19.0. The results for female respondents of the heavy information technology using employees in the Lebanese banking sector, show that Step1 R²=.002, and Step 2 R²=.229, with a ΔR²=.227 at p<.05 and Sig.=.000. While the results for male counterparts show that Step1 R²=.003, and Step 2 R²=.128 and a ΔR²=.125 at p<.05 and Sig.=.004. The moderation effect of the variable “Gender” on the relationship between pay and job satisfaction is clearly apparent through the results. As the difference between the attitudes and ways of thinking of both genders is reflected in the change in the relationship (ΔR²=.227 for females and ΔR²=.125 for males). Thus, gender does affect the relationship between pay and job satisfaction - to a different extend - for males and females of this category of employees. Thus H2 is accepted.
DISCUSSION OF RESULTS

The results of the field study show that for the male extensive technology users in the commercial banks of Lebanon, pay and job satisfaction are both correlated and meaningful. However, for female employees of the same category, the importance of pay is higher in its impact on their job satisfaction. This may be due to more than one factor. First, the economy of Lebanon, where the study was unfolded, has limited potential growth, thus limited development and new job prospects. This pushes female employees in general, and more specifically those with family duties and responsibilities at hand, to accept their job as a statu-quo, leaving the path for job-growth for male counterparts whose ambitions are less restricted.

Second, in a social system that put the burden of providing for the household on the shoulders of the male, the male employee in general looks more toward a career advancement, pride and other job satisfying measures leading to better pay, while females in general are trained to be contempt with the job at hand, thus seeking higher pay out of the prevailing opportunity.

Third, the general attitude of the population toward change. In general, change and stability a in a weak economy do affect an employee’s personal behavior. In the light of the turbulent socio-political setting, females tend to look at and perceive stability in the job as a more important factor that allows for steady income, habit recognition and normalization, whereas males look at change from the perspective of added work-experience, decreased boredom and career development.

Fourth, and from a narrower perspective, the employees in the back-office and IT departments may be exhibiting this behavior as a result of being satisfied with the tools they are provided with, to perform their jobs, and as a response of their salaries being up-scaled due to the relationship of salary to specific knowledge acquired (such as programming languages or certifications).

Finally, the environment is generally suppressive for female employees. It is reported that they generally are paid less that male counterparts (The World Bank, 2009). In the wake of equality and feminist trends in the society, and as a result of being equally educated, when a female receives an equivalent pay to that received by a male counterpart, the impact of her job satisfaction is appearing to be higher due to the general perspective of unfair/unequal treatment in other organizational settings.

LIMITATIONS & FUTURE RESEARCH

In this study the researcher has attempted to minimize the impact of limitations on results, however, with all due process are associated a number of pertaining limitations. First, the study was applied to only one economic sector of the Lebanese economy. This indicates that the results, although based on a large number of respondents, is still limited in its generalizability potential. Another limitation is the small duration of the study which can be extended thus allowing to take a bigger sample size since the sample of 620 responses out of 21,337 employees in the banking sector is relatively small. In addition, fear of information leakage is a main obstacle of getting accurate responses from the respondents as most of the employees may not provide appropriate answers to the questions because they think it will be disclosed to others especially bank employees. Other demographic factors which can be of value to the research can be added. The job satisfaction aspect was not thoroughly examined.
in all its aspects such as motivation, job involvement, organizational citizenship, organizational commitment, perceived stress and others which is also considered a limitation for the study. It is recommended therefore for future research to examine the gender effect on pay and job satisfaction in other economic sectors of the Lebanese economy in order to be able to generalize the study. As well as expanding the sample size to be proportional to the number of employees in the banking sector. This is in addition to stressing more on the factors that determine the job satisfaction of bank employees since job satisfaction is a major aspect of the research.

CONCLUSION

This study aims at examining the relationship of gender to pay and to job satisfaction in the commercial banking sector of Lebanon. The research results revealed a low negative correlation between gender and demographic factors as well as job satisfaction. However there was a positive correlation between gender and job position. In addition the research results showed a considerable difference in pay satisfaction between male and female respondents and that female respondents exhibit a higher job satisfaction (positive relation between pay) which is inconsistent with the findings of Crossman and Abou-zaki where the employee satisfaction was not necessarily related to gender or any other factors. Moreover, after testing the first hypothesis it was concluded that pay and job satisfaction were more importantly correlated for women than for men, which guides the researcher to believe that there are gender based differences in the job satisfaction of the banking employee of Lebanon which is consistent with the results of studies done by Bartol and Wortman (1975); Murray and Atkinson (1981); Hodson (1989); Sloane and Williams (1996); Clark (1996); Clark (1997); Sousa-Poza and Sousa-Poza (2000); OECD (2001); Kaizer (2005); and mentioned in the literature review.

References


**FIGURES**

![Figure 1  Suggested model](image)

**Figure 2: Population distribution of the commercial banking sector in Lebanon – Gender and Age.**

<table>
<thead>
<tr>
<th>Total # of Staff</th>
<th>Gender</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Males</td>
<td>Females</td>
</tr>
<tr>
<td>21,337</td>
<td>11,715</td>
<td>9,622</td>
</tr>
<tr>
<td>100%</td>
<td>54.9%</td>
<td>45.1%</td>
</tr>
</tbody>
</table>

Figure 3: Population Distribution of Staff by Educational Level

<table>
<thead>
<tr>
<th>Educational Level</th>
<th>≥Baccalaureat (High School)</th>
<th>Baccalaureat (High School)</th>
<th>University Degree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥Baccalaureat (High School)</td>
<td>2,603</td>
<td>3,884</td>
<td>14,850</td>
<td>21,337</td>
</tr>
<tr>
<td>%</td>
<td>12.2%</td>
<td>18.2%</td>
<td>69.6%</td>
<td>100%</td>
</tr>
</tbody>
</table>


Figure 4: Population Distribution of Staff by Job Categories/Rank

<table>
<thead>
<tr>
<th></th>
<th>Managing Staff</th>
<th>Cadres</th>
<th>Ordinary Employees</th>
<th>Support Employees</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Males</td>
<td>1,921</td>
<td>3,058</td>
<td>5,424</td>
<td>1,312</td>
<td>11,715</td>
</tr>
<tr>
<td>Males</td>
<td>16.4%</td>
<td>26.1%</td>
<td>46.3%</td>
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<td>100%</td>
</tr>
<tr>
<td>Females</td>
<td>712</td>
<td>3,445</td>
<td>5,417</td>
<td>48</td>
<td>9,622</td>
</tr>
<tr>
<td>Females</td>
<td>7.4%</td>
<td>35.8%</td>
<td>56.3%</td>
<td>0.5%</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td>2,633</td>
<td>6,503</td>
<td>10,841</td>
<td>1,360</td>
<td>21,337</td>
</tr>
<tr>
<td>Total %</td>
<td>12.4%</td>
<td>30.5%</td>
<td>50.8%</td>
<td>6.3%</td>
<td>100%</td>
</tr>
</tbody>
</table>


Figure 5: Major demographic highlights of the population and sample of respondents.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Populations’ Major Highlights</th>
<th>Samples’ Major Highlights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>Percentage</td>
<td>Number</td>
</tr>
<tr>
<td>Age</td>
<td>10,156</td>
<td>25 -40 years 47.6%</td>
</tr>
<tr>
<td></td>
<td>7,998</td>
<td>40 – 60 years 37.5%</td>
</tr>
<tr>
<td>Educational level</td>
<td>3,884</td>
<td>High School 18.2%</td>
</tr>
<tr>
<td></td>
<td>14,850</td>
<td>University 69.6%</td>
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<td>Job Category</td>
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<td>Managing Staff 12.4%</td>
</tr>
<tr>
<td></td>
<td>6,503</td>
<td>Cadres 30.5%</td>
</tr>
<tr>
<td></td>
<td>10,841</td>
<td>Regular employee 50.8%</td>
</tr>
<tr>
<td></td>
<td>1,630</td>
<td>Support employee 6.3%</td>
</tr>
</tbody>
</table>


Figure 6: Respondents’ descriptive statistics – Gender and Age Distribution vs Population

<table>
<thead>
<tr>
<th>Total # of Staff</th>
<th>Gender</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Males</td>
<td>Females</td>
</tr>
<tr>
<td>620</td>
<td>309</td>
<td>311</td>
</tr>
<tr>
<td>100%</td>
<td>49.84%</td>
<td>50.16%</td>
</tr>
<tr>
<td>25 ≥</td>
<td>143</td>
<td>350</td>
</tr>
<tr>
<td>25 - 40</td>
<td>118</td>
<td>9</td>
</tr>
<tr>
<td>40 - 60</td>
<td>19.04%</td>
<td>1.45%</td>
</tr>
<tr>
<td>≥ 60</td>
<td>3.6%</td>
<td></td>
</tr>
</tbody>
</table>

Gender Moderating the Relationship between Pay and Job Satisfaction of Extensive Information System Users

Figure 7: Respondents’ descriptive statistics – Educational Level Attained vs Population

<table>
<thead>
<tr>
<th>Education</th>
<th>≥Baccalaureat (High School)</th>
<th>Baccalaureat (High School)</th>
<th>University Degree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents</td>
<td>18</td>
<td>36</td>
<td>566</td>
<td>620</td>
</tr>
<tr>
<td>Respondents %</td>
<td>2.9%</td>
<td>5.81%</td>
<td>91.29%</td>
<td>100%</td>
</tr>
<tr>
<td>Population %</td>
<td>12.2%</td>
<td>18.2%</td>
<td>69.6%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Figure 8: Respondents’ descriptive statistics – Education Specialization vs Population

<table>
<thead>
<tr>
<th>Education Specialization</th>
<th>Business Studies</th>
<th>Social Studies</th>
<th>Other</th>
<th>Total</th>
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<tbody>
<tr>
<td>Respondents</td>
<td>516</td>
<td>28</td>
<td>76</td>
<td>100%</td>
</tr>
<tr>
<td>Respondents %</td>
<td>83.21%</td>
<td>4.5%</td>
<td>12.28%</td>
<td>100%</td>
</tr>
<tr>
<td>Population %</td>
<td>36.9%</td>
<td>2.9%</td>
<td>60.2%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Figure 9: Respondents’ Descriptive Statistics - Job Categories/Rank vs Population

<table>
<thead>
<tr>
<th></th>
<th>Managing Staff</th>
<th>Cadres</th>
<th>Ordinary Employees</th>
<th>Support Employees</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Males</td>
<td>9</td>
<td>108</td>
<td>165</td>
<td>27</td>
</tr>
<tr>
<td>Sample</td>
<td>Males</td>
<td>2.91%</td>
<td>34.95%</td>
<td>53.4%</td>
<td>8.74%</td>
</tr>
<tr>
<td>Sample</td>
<td>Females</td>
<td>7</td>
<td>92</td>
<td>198</td>
<td>14</td>
</tr>
<tr>
<td>Sample</td>
<td>Females</td>
<td>2.25%</td>
<td>29.58%</td>
<td>63.67%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Sample</td>
<td>Total</td>
<td>16</td>
<td>200</td>
<td>363</td>
<td>41</td>
</tr>
<tr>
<td>Sample</td>
<td>Total %</td>
<td>2.58%</td>
<td>32.25%</td>
<td>58.55%</td>
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<td>Males</td>
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<td>26.1%</td>
<td>46.3%</td>
<td>11.2%</td>
</tr>
<tr>
<td>Population</td>
<td>Females</td>
<td>7.4%</td>
<td>35.8%</td>
<td>56.3%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Population</td>
<td>Total %</td>
<td>25.8%</td>
<td>30.5%</td>
<td>50.8%</td>
<td>6.3%</td>
</tr>
</tbody>
</table>
The Relationship between Information System Quality and Customer Equity Management in the Service Sector

Abstract
Marketing information system is an important tool that facilitates customer value. The purpose of this study was to examine the relationship between marketing information system quality (MISQ) and customer value equity management (CVEM) within banking sector. Results shows that the three dimensions of the MKISQ: information system quality, marketing orientation and support service quality Influence value equity. This study contributes to the rare empirical investigation of the MKISQ and CVEM. The paper provides detail discussion, Imitations and suggestions for future research.

Keywords- marketing information system, customer equity, value equity, Banking Sector

Introduction
In strategic marketing, information system is a valuable resource of the firm; information shares the concept of value with traditional resources. However, this value behaves uniquely. While land, labor and capital are traditionally hoarded to increase value and inhibit scarcity, information shared is commonly considered to enhance and increase its value (Oppenheim et. al., 2001). Since information is core to business success, Successful marketing practice must grab the dual challenges of marketing information and customer service (Barnes, 1993). Smart companies will gain a competitive advantage by improving the delivery of customer service through information technology (Burgetz, 1992). IT is an important tool in attaining the desired growth and competitiveness of today’s businesses, it may also constitute a major portion of an organization’s capital investment (Alshawi et. al., 2003; Kumar, 2004; Huang et. al., 2006).

As the world’s economy enters the Information Age, all types of digital data have become more important to many aspects of business (Drucker, 1994). The role of information technology (IT) in the services sector is the subject of considerable scholarly attention (Voss, 2003). The power of information technology lies at the heart of most businesses, affects to advance the capabilities that IT offers the customer service function, (Quinn et. al., 1990). Information technology help companies provide more consistent levels of service and cement relationships with customers (O’Leary, 1990). IT is an important tool in attaining the desired growth and competitiveness of today’s businesses, it may also constitute a major portion of an organization’s capital investment (Alshawi et. al., 2003; Kumar, 2004; Huang et. al., 2006).
The present study uses a sample of senior marketing managers from Sudanese Banking sector to clarify the relationships between information system quality, and customer equity management. The study suggests that information system quality variables (system quality, information quality, marketing orientation quality and support service quality) influence customer value equity management (value equity, brand equity, and retention equity).

**Literature Review and Research Hypotheses**

In the process of transfer from product-centered thinking to customer centered thinking (Sheth et al., 2000), customer equity is often presented as the basis for a marketing strategy, this strategy applied by a marketing information system. It is important to notice that the customer equity patterns that are based only on financial value aspect measurements do not reflect customer relationship value (Helm, 2004). However, Rust et al., (2004a) suggested that marketing effort measurement methods using financial outcomes are calculated as customer equity alteration. Customer equity is determined by the frequency of purchasing a certain product category and by the average quantity of purchased products.

Holehonur et al., (2007) found that product quality perceived by the customer is a driver that has a direct effect on value equity. Also Vogel et al., (2008) pointed that the value equity and brand equity are the primary determinant for future sales, while relationship equity influences customer intentions to be loyal. Customer equity view recognizes customers as a source of cash-flows and the majority of customer equity measurement models are not incidentally based on net present value calculation method, used to measure customer lifetime value (Villanueva & Hanssens, 2007). As each customer equity component has a different significance level in a certain market, an organization should identify the factors that have the highest effect on customer preferences (i.e. strong brand, product quality and price, long-term valuable relationship) and drive its marketing efforts in the right direction (Rust et al., 2001; Lemon et al., 2001).

Rust et al., (2000, 2001, 2002) divided customer equity model to value equity (that influenced by quality, price, convenience), brand equity (brand awareness, attitude toward the brand, and corporate ethics), and retention equity or relationship equity. It has also been pointed out that, after spending huge amounts of money on customer relationship management technologies, some firms do not know how to manage customer relationships with these new databases, and have therefore achieved negative returns for these investments (Rigby et al., 2002).

With the recent growth of internet retailing, the availability of information on retail, service is often delivered to customers as a information (Watson et al., 2002). Researchers suggest that the provision of superior experiences with an interactive flow of information is critical for successful internet retailing (Rust and Lemon, 2001; Santos, 2003).

The quality of the results of organizational information network depends on the quality of the information. Information quality can be described by the following characteristics: relevance, timeliness, flow continuity, validity, accuracy, intelligibility, accessibility and visibility (Büyüközkan, 2004). The marketing information system contributes considerably and ease customer satisfaction (e.g. Lee et al., 2003; Jeong, et al., 2003), enhance the efficiency of service delivery (Siguaw and Enz., 1999; Kalliopi et al., 2010) and improve service quality (e.g. St Marie, Kasavana and Knutson, 2000) and, accordingly, customer loyalty (Lee et al, 2003). Service quality can increase customer loyalty, retention and improved business
performance (Ennew and Binks, 1996). So, firms with a deeply ingrained service quality orientation often develop an intrinsic reputation (Barney, 1991). In service marketing literature, the way customers are retained is to improve customer service quality and satisfaction (Berry & Parasuraman, 1991; Zeithaml & Bitner, 1996).

Regarding marketing orientation, many researchers stressed its role as one of the most crucial factors influencing marketing information system usage and effectiveness (Wierenga, Van Bruggen and Staelin, 1999; Wierenga and Ophuis, 1997; Panigyrakis and Chatzipanagiotou, 2004). The adoption of marketing orientation facilitates each company's collection, processing, and diffusion of information, resulting in the company's knowledge of the customer’s need (Kohli and Jaworski, 1990; Narver and Slater, 1990; Kalliopi et al., 2010).

Many banks have invested heavily in customer relationship management and data warehousing tools, but most financial entities still have a lot of work ahead of them to identify the information that is really relevant and use it effectively in the creation of value for their customers (Loveman, 1998; Roig, Garcia, Tena, and Monzonis, 2006).

Customer relationships are increasingly studied in literature (Palmatier, Dant, Grewal and Evans, 2006). This is primarily because acquiring new customers can be more costly than keeping existing ones (Reichheld and Sasser, 1990) and longer-term relationships are often more profitable than shorter-term associations (Reichheld and Sasser, 1990). As a result, the customer-provider relationship has appeared to be a fundamental strategic focus for firms (Palmatier et al., 2006; Shemwell and Cronin., 1995). This is clearly exemplified by the millions of dollars spent annually on customer relationship management programs (Mitchell, 2002) and the prominence placed on developing customer lifetime value (Cooil, Keiningham, Aksoy and Hsu, 2007). Based on the above discussions, the following hypotheses were generated:

Hypothesis 1: Marketing system quality is positively related to customer equity management (value equity, brand equity, and retention equity)

Hypothesis 2: Marketing system information quality is positively related to customer equity management (value equity, brand equity, and retention equity).

Hypothesis 3: Marketing system quality is positively related to customer equity management (value equity, brand equity, and retention equity)

Hypothesis 4: Marketing information support service system quality is positively related to customer equity management (value equity, brand equity, and retention equity).

**Research Method**

**Data and procedures**

The chosen scale items were translated from English into Arabic language to avoid translation errors and minimize loss or dilution of meaning. Further, a senior marketer with a good understanding of the aim of the study refined the construct measurements to suit with the banking context. A pilot questionnaire was administered to 25 senior marketers, to test the clarity and ambiguity. The outcome of this pre-test was revisions to three items. All questions were to be answered on a five-point Likert scale of agreement with statements containing the items, ranging from “strongly agree” to “strongly disagree”.

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The survey sample consisted of 125 senior banking marketing managers in Sudanese banking sector, selected by purpose sampling from the membership list of the (SBI). The final questionnaire yielded 117 usable returns after elimination of those containing inaccurate or invalid answers. The response rate of 78 per cent is unusually high for a questionnaire-based survey. The data collection instrument is a structured questionnaire which was first developed and pre-tested among a small group of respondents, who are academics and have significant expertise in marketing. The questionnaire contains two sections: section one deals with the firm’s perception of marketing information system, while section two deals with value equity.

**Measures**

Majority of the respondents did not have a good command of English, thus the questionnaire was administered in Arabic. The process of back-translation was conducted to check consistency between the English and the Arabic versions of the questionnaire. All the variables measurements used in this study were drawn from literature and were adapted for the context of this research. The respondents indicated their agreement with each item using a five-point Likert scale. System quality is defined in terms of accuracy, process speed, quick response time, easy access, easy use, and friendly working environment (DeLone and McLean, 2004). The measurement used the scale included six items employed by (Kalliopi et. al., 2010). Information quality is defined as the information that marketing executives need in order to cover their specific needs and their quality, which in turn defines the type of marketing applications executives choose to use (Wierenga, 1999; Panigyrakis and Chatzipanagiotou, 2004, 2005). Information quality measurement scale included eight items adapted from Bailey and Pearson (1983).

Marketing orientation is defined as the organization-wide generation of market intelligence and disseminating/responding to market intelligence across departments in the organization (Jaworski & Kohli, 1993), The measured using the scale developed by Narver and Slater (1990), and Kohli and Jaworski (1990) specifically, the scale included 6 items referring to all six marketing orientation dimensions. Support service quality is defined as a fundamental requirement for a successful service business, and to generally a strong predictor of customer perceptions and loyalty (Zeithaml, Berry, and Parasuraman, 1996; Cronin, et. al., 2000). This was measured by (Gounaris and Venetis, 2002) scale which allowed for the measurement of support service quality. The scale included 7 items. Value equity is defined as the customer’s objective assessment of the utility of a brand, based on perceptions of what is given up for and what is received (Rust, Zeithaml, and Lemon, 2000). It is measured as the quality, price and convenience to customer; the twelve items measuring customer equity were adopted from Rust et al, (2004).

**Analyses and results**

Descriptive statistics, factor analysis, reliability tests, correlation analysis, and regression analysis was used to analyze the data in this study. Table, one shows the demographic data of the respondents, most of the respondents were male and married with age of less than 50 years, majority are post graduated with experience of 20 years and more.

<table>
<thead>
<tr>
<th>variable</th>
<th>Category</th>
<th>frequency</th>
<th>percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>less than 30</td>
<td>9</td>
<td>7.2</td>
</tr>
<tr>
<td></td>
<td>30 less than 40</td>
<td>29</td>
<td>23.2</td>
</tr>
</tbody>
</table>
Goodness of measures

To ensure the goodness of measures, Factor Analysis on Marketing Information System and value equity was conducted, following the assumptions recommended by Hair, Anderson, Tatham, and Black, (2010). First, there must be sufficient number of statistically significant correlations in the matrix. Secondly, Kaiser-Meyer-Olkin measure of sampling adequacy should be at least 0.6. Thirdly, Bartlett’s test of sphericity should be significant at 0.05. Fourthly, communalities of items should be greater than 0.50. Fifth, the minimum requirement of factor loading should be 0.50 (since the sample size of this study 125 senior marketers) based on a 0.05 significant level, with value of cross loading exceeds 0.50. Also to provide a simple structure column for interpretation, the factors were subjected to Varimax rotation. Finally, Eigenvalues should be more than one for factor analysis extraction.

Factor analysis was done on the twenty-seven items, which was used to measure marketing information system constructs. Table (2) showed the summary of results of factor analysis on marketing information system. In the first run of factor analysis, items (INQ7 and SQ4) were found to have communalities less than 0.50. Items INQ7 and SQ4 was dropped in the subsequent run. In the subsequent run item SSQ3 showed communalities less than 0.50, and had been dropped in the subsequent run. An item SSQ4, SQ6, MRO1 and MRO2 was also showed cross loading, these Items was eliminated in the subsequent run. Finally, all assumptions were satisfactory fulfilled, all the remaining items had more than recommended value of at least 0.50 in MSA with KMO value of 0.91 (above the recommended minimum level of 0.60), and Bartlett’s test of sphericity is significant (p<.01). Thus, the items are appropriate for factor analysis.

Table (1) showed that the items for marketing information system loaded on four components/factors with Eigenvalues exceeding 1.0. These four factors explain 70.02% of variance in the data (above the recommended level of 0.60). All the remaining items also had the factor loading values above the minimum of 0.50, with value of cross loading less than .425. The first factor of marketing information system captures all the items of information quality and two items of system quality. Thus the factor one was renamed as information system quality. The second factor captures four items of marketing orientation, so this factor holds the original name marketing orientation. The third factor captures four items of support service quality. However, the original name of this factor was retained as it is, and finally one item of factors four was excluded for further analysis because it has only one single item.
As shown in Table one factor loading of marketing information system items on the three factors ranged from 0.57 to 0.86. Thus, this study found that the marketing information system consists of three factors, namely; information system quality, marketing orientation quality, and support service quality.

Table 2  Rotated factor loading for marketing information system

<table>
<thead>
<tr>
<th>Item</th>
<th>F 1</th>
<th>F 2</th>
<th>F3</th>
<th>F 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Information quality (IQ)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IQ1 bank information is clear</td>
<td>.842</td>
<td>.219</td>
<td>.137</td>
<td>.001</td>
</tr>
<tr>
<td>SQ2 bank system is efficient</td>
<td>.813</td>
<td>.320</td>
<td>.106</td>
<td>.005</td>
</tr>
<tr>
<td>IQ3 bank information is up to date</td>
<td>.801</td>
<td>.163</td>
<td>.281</td>
<td>-.111</td>
</tr>
<tr>
<td>SQ5 bank system has easy use</td>
<td>.785</td>
<td>.069</td>
<td>.074</td>
<td>.203</td>
</tr>
<tr>
<td>IQ8 bank information has reliable and relevance</td>
<td>.780</td>
<td>.160</td>
<td>.256</td>
<td>.175</td>
</tr>
<tr>
<td>IQ2 bank information has format</td>
<td>.750</td>
<td>.181</td>
<td>.182</td>
<td>.134</td>
</tr>
<tr>
<td>SQ1 bank system provides accurate information</td>
<td>.744</td>
<td>.349</td>
<td>.023</td>
<td>.143</td>
</tr>
<tr>
<td>IQ4 bank information has timeliness</td>
<td>.735</td>
<td>.275</td>
<td>.328</td>
<td>-.103</td>
</tr>
<tr>
<td>IQ6 bank information has completeness</td>
<td>.727</td>
<td>.268</td>
<td>.273</td>
<td>.129</td>
</tr>
<tr>
<td>IQ5 bank information has precision</td>
<td>.716</td>
<td>.264</td>
<td>.300</td>
<td>.232</td>
</tr>
<tr>
<td>SQ3 bank system has quick response time</td>
<td>.709</td>
<td>.294</td>
<td>.136</td>
<td>-.024</td>
</tr>
<tr>
<td><strong>Marketing orientation (MO)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MO 5 MO comprises an intelligence collection.</td>
<td>.241</td>
<td>.861</td>
<td>.128</td>
<td>.208</td>
</tr>
<tr>
<td>MO 6 MO comprises response to intelligence</td>
<td>.268</td>
<td>.856</td>
<td>.141</td>
<td>.250</td>
</tr>
<tr>
<td>MO 4 MO comprises an intelligence collection</td>
<td>.314</td>
<td>.820</td>
<td>.205</td>
<td>.156</td>
</tr>
<tr>
<td>MO 3 MO comprises inter-functional coordination</td>
<td>.205</td>
<td>.711</td>
<td>.370</td>
<td>-.097</td>
</tr>
<tr>
<td>SQ7 service oriented culture enhances the service quality</td>
<td>.264</td>
<td>.652</td>
<td>.372</td>
<td>.216</td>
</tr>
<tr>
<td>MO 2 MO comprises competitor orientation.</td>
<td>.427</td>
<td>.640</td>
<td>.273</td>
<td>-.123</td>
</tr>
<tr>
<td>MO 1 MO comprises customer orientation</td>
<td>.454</td>
<td>.526</td>
<td>.174</td>
<td>-.348</td>
</tr>
<tr>
<td><strong>System service quality (SQ)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SQ2 training is claimed to be one of the essential features for improving quality</td>
<td>.178</td>
<td>.178</td>
<td>.736</td>
<td>.013</td>
</tr>
<tr>
<td>SQ3 teamwork is often seen as a means of supporting willingness to deliver service quality</td>
<td>.174</td>
<td>.259</td>
<td>.705</td>
<td>.197</td>
</tr>
<tr>
<td>SQ5 bank performance rewards gives the right directions to workforce</td>
<td>.281</td>
<td>.425</td>
<td>.614</td>
<td>.159</td>
</tr>
<tr>
<td>SQ1 bank has recruitment and selection of the best possible personnel</td>
<td>.416</td>
<td>.363</td>
<td>.567</td>
<td>-.225</td>
</tr>
<tr>
<td>SQ4 Empowerment of front-line staff improving the level of support service quality.</td>
<td>.295</td>
<td>.007</td>
<td>.543</td>
<td>.511</td>
</tr>
<tr>
<td>SQ6 bank communication (two way internal) as upward and downward</td>
<td>-.004</td>
<td>.377</td>
<td>.400</td>
<td>.546</td>
</tr>
<tr>
<td>SQ6 Bank system has friendly environment.</td>
<td>.449</td>
<td>.354</td>
<td>.016</td>
<td>.522</td>
</tr>
</tbody>
</table>
The Relationship between Information System Quality and Customer Equity Management in the Service Sector

<table>
<thead>
<tr>
<th>Eigen values</th>
<th>12.494</th>
<th>2.441</th>
<th>1.430</th>
<th>1.138</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of variance explained</td>
<td>31.064</td>
<td>20.435</td>
<td>12.624</td>
<td>5.893</td>
</tr>
<tr>
<td>Total variance explained (%)</td>
<td>70.016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kaiser-Meyer-Olkin (KMO)</td>
<td>.914</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bartlett’s test of Sphericity</td>
<td>2295.933</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

N= 117, Variables loaded significantly on factor with coefficient of at least 0.5
* Items deleted due to high cross loading.

Factor analysis was also done on the 12 items, which was used to measure value equity. Table (3) showed the summary of results of factor analysis on value equity. In the first run of factor analysis, item VEQ11 was found to have communalities less than 0.50, and it was dropped in the subsequent run. Also to provide a simple structure column for interpretation, the factors were subjected to Varimax rotation. Finally, all assumptions were satisfactorily fulfilled. All the remaining items had more than the recommended value of at least 0.50 in MSA with KMO value of 0.92 (above the recommended minimum level of (0.60), and Bartlett’s test of sphericity is significant (p<.01). Thus, the items are appropriate for factor analysis.

Table 3 also shows that the items for value equity loaded on two components/factors with Eigenvalues exceeding 1.0. These two factors explain 70.50% of variance in the data (above the recommended level of 0.60). All the remaining items also had the factor loading values above the minimum values of 0.50, with value of cross loading less than .50. The first factors of value equity captures all the items of the value equity except one, and second factor captures one item (VEQ3) and the remaining one item does not reflect any reliability of value equity. As shown in Table (2) factor loading of value equity items on factor one ranged from 0.71 to 0.89. Thus, this study found that value equity consists of one item.

**Table 3** Rotated factor loading for value equity management

<table>
<thead>
<tr>
<th>Item</th>
<th>F 1</th>
<th>F 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>VE5</td>
<td>.893</td>
<td>.112</td>
</tr>
<tr>
<td>VE6</td>
<td>.881</td>
<td>.019</td>
</tr>
<tr>
<td>VE7</td>
<td>.849</td>
<td>-.156</td>
</tr>
<tr>
<td>VE8</td>
<td>.847</td>
<td>.023</td>
</tr>
<tr>
<td>VE1</td>
<td>.840</td>
<td>-.009</td>
</tr>
<tr>
<td>VE2</td>
<td>.838</td>
<td>-.073</td>
</tr>
<tr>
<td>VE0</td>
<td>.826</td>
<td>.004</td>
</tr>
<tr>
<td>VE4</td>
<td>.824</td>
<td>.135</td>
</tr>
<tr>
<td>VE1</td>
<td>.732</td>
<td>.266</td>
</tr>
<tr>
<td>VE2</td>
<td>.726</td>
<td>.302</td>
</tr>
<tr>
<td>VE9</td>
<td>.709</td>
<td>.052</td>
</tr>
</tbody>
</table>
Reliability Analysis and Descriptive Statistics

Reliability is an assessment of the degree of consistency between multiple measurements of variables (Haire et. al., 2010). To test reliability, this study used Cronbach’s alpha as a diagnostic measure, which assesses the consistency of entire scale, since being the most widely used measure (Sharma, 2000). According to Haire et al. (2010), the lower limit for Cronbach’s alpha is 0.70. The results of the reliability analysis summarized in Table (3) confirmed that all the scales display a satisfactory level of reliability (Cronbach’s alpha exceeded the minimum value of 0.70). Therefore, it can be ended that the measures have acceptable level of reliability. Table (3) showed that the reliability coefficient for information system quality was 0.955. For the marketing orientation the reliability coefficient was 0.937 followed by support service quality reliability coefficient was 0.809. The reliability of value equity dimension was 0.950. Thus, the model was reliable for the sample and above the acceptable level.

Also, Table (3) also shows the means and standard deviations of the three components of marketing information system: information system quality, marketing orientation, and support service quality. The table reveals that the Sudanese banking industry banks emphasized more on information system quality (mean=3.93, standard deviation=0.78), followed by support service quality (mean=3.77, standard deviation=0.79), and the lowest components of marketing information system is marketing orientation (mean=3.56, standard deviation=0.90). Therefore those three dimensions were achieved average score equal (3.76). Given that the scale used a 5-point scale (1=strongly disagree, 5=strongly agree), it can be concluded that Sudanese banking industry banks are highly of information system quality and support service quality above the average mean. On the other hand value equity score (mean=3.47, standard deviation=0.76). A long side all means value above the assumed mean which equals 3.

<table>
<thead>
<tr>
<th>Variable</th>
<th>No. of items</th>
<th>Cronbach’s alpha</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information system quality</td>
<td>11</td>
<td>.955</td>
<td>3.9302</td>
<td>.78347</td>
</tr>
<tr>
<td>Marketing orientation</td>
<td>4</td>
<td>.937</td>
<td>3.5627</td>
<td>.90430</td>
</tr>
<tr>
<td>Support service quality</td>
<td>4</td>
<td>.809</td>
<td>3.7735</td>
<td>.79494</td>
</tr>
<tr>
<td>Value equity</td>
<td>12</td>
<td>.950</td>
<td>3.4702</td>
<td>.76437</td>
</tr>
</tbody>
</table>

Note: All variables used a-5 point likert scale with (1= strongly disagree, 5= strongly agree)
Correlation Analysis

Table (4) presents the results of the intercorrelation between the variables. The correlation analysis was conducted to see the initial picture of the interrelationships between the variables under the study. Therefore, the importance of conducting correlation analysis is to identify any potential problems associated with multicollinearity (Sekaran, 2003). Table (4) represents the correlation matrix for the constructs operationalized in this study. These bivariate correlations allow for preliminary inspection and information regarding hypothesized relationships. Besides that, correlation matrix gives information regarding test for the presence of multicollinearity. The table shows that no correlations near 1.0 (or approaching 0.8 or 0.9) were detected, which show that multicollinearity is not a significant problem in this particular data set.

Table four shows that information system quality is positively and significantly correlated with Value equity \((r = .598, p–value < 0.01)\), marketing orientation is positively and significantly correlated with Value equity \((r = .611, p–value < 0.01)\), and with support service quality is positively and significantly correlated with Value equity \((r = .556, p–value < 0.01)\). The correlation analysis in Table (4) provides a strong indication of association, to undertake a more complete examination of the proposed relationships and to evaluate whether such associations are direct or indirect, multi regression test was conducted. The next section of the analysis is testing the hypotheses.

Table 5  Correlations among the all study variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>INQ11</th>
<th>MO12</th>
<th>SSQ13</th>
<th>VE11</th>
</tr>
</thead>
<tbody>
<tr>
<td>INQ11 Information system quality</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MO12 Marketing orientation quality</td>
<td>.585**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSQ13 Support service quality</td>
<td>.610**</td>
<td>.627**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>VE11 Value equity management</td>
<td>.598**</td>
<td>.611**</td>
<td>.556**</td>
<td>1</td>
</tr>
</tbody>
</table>

Notes: Level of significant: **p<0.01, N= 117

Hypotheses Testing

This section discusses the results of hypotheses of the study. Given that the new emerged variable from factor analysis and the eliminated ones, there are three hypotheses in this study. to perform regression analysis, it is generally agreed that there are at least five assumptions (normality, linearity, multicollinearity, homoscedasticity, and outliers) should be met. The results of testing these assumptions are provided below:

1. The normality had been established through the relevant Histogram. Histograms show that most values fall in the center and the curves take the bell-shape. The normal probability (P-P) plots also show that the residual points are close to the diagonal line. Therefore, the variables are normally distributed.

2. Linearity of relationships: No curvilinear pattern of relationship is apparent from the scatter plots. Therefore, there is no violation of the assumption of linearity.

3. Heteroscedasticity were checked through the scatter plots of standardized residual. The residual plots take roughly the rectangular shape, which shows that there is no problem of heteroscedasticity in the data.

4. The result of Multicollinearity test showed that all values of the VIF are less than the threshold of 10, all Tolerance values are more than 0.1, and all Variance Proportions are less than 0.90. This shows that, there is no multicollinearity in the data.
5. Outliers was identified and removed through using case-wise diagnostics. Therefore, the assumptions of the multiple regression analysis were met in this study and the regression analysis can securely be used to test the designated hypotheses.

**The Relationship between Marketing Information System and Value Equity**

Table five shows the results of the multiple regression equation testing the influence of the marketing information system variables on value equity. The marketing information system variables explained 48% of the variance in value retention equity. However, the result shows that the model is significant. In addition the results show that two of the three component of marketing information system is a positive significantly influenced value retention equity. The results showed that the hypothesis was supported, i.e., there is a positive relationship between marketing information system and value equity. The results also showed that marketing orientation have the most significant affect on value equity ($\beta=0.329$, $p<0.01$), followed by information system quality ($\beta=0.305$, $p<0.01$), and support service quality ($\beta=0.166$, $p<0.10$). These results give support to hypotheses H1. (Information system quality and value equity), H2. (Marketing orientation quality and value equity), and H3. (Support service quality and value equity). Therefore, these results provide support for the assertion that the effort to become marketing information system does lead to the creation of value equity.

<table>
<thead>
<tr>
<th>Variables</th>
<th>DV: Value equity (VE11)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model variables:</td>
<td>Std. Beta</td>
</tr>
<tr>
<td>Information system quality INQ11</td>
<td>.305**</td>
</tr>
<tr>
<td>Marketing orientation MO12</td>
<td>.329**</td>
</tr>
<tr>
<td>Support service quality SSQ13</td>
<td>.166*</td>
</tr>
<tr>
<td>F value</td>
<td>34.194**</td>
</tr>
<tr>
<td>$R^2$</td>
<td>.476</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>.462</td>
</tr>
<tr>
<td>$R^2$ change</td>
<td>.476</td>
</tr>
<tr>
<td>$F$ change</td>
<td>34.194**</td>
</tr>
</tbody>
</table>

**Note:** Level of significant: *$p<0.10$, **$p<0.01$  
Marketing information system has been hypothesized to have significant and positive impact on value equity, marketing information should involve customer value, customer profitability, the segments to which a customer belongs, and scores and indicators for loyalty, satisfaction, recency, frequency, and wallet share, it should also involve a history of all the campaign offers that you’ve made to the customer and the customer’s responses to those offers Seybold, (2002).

The outcomes of this research point out that information system quality, marketing orientation, and support service quality are positively related to value equity. However, support service quality demonstrates no significant but positive relationship with value equity. Therefore, many Researchers argued the reason for that can be many US companies reported to be not fully exploiting the latest information technologies to create competitive advantages, and many marketing managers are not satisfied with their marketing information system Li, (1995, 1997). Many companies are aware of the strategic benefits of information technology in customer service, but are having difficulty in actually identifying and managing such applications (Earl, 1989; Fletcher, 1990).
Also managers often are reluctant to use information systems because they have not been involved in their design and development or they lack the training necessary to use the system properly (Clarke, 1992; Magal & Strouble, 1991; O’Brien et al, 1995). In the same way, the literature has shown that little is known about marketing information system (MkIS) design in terms of marketing information characteristics Ashill and Jobber, (1999). Moreover, Nelson, (1999) argued that there is clear evidence that many banks lack alignment or integration among their marketing and information services functions. Improving this cross-functional interface may lead to more effective use of information technology to support the marketing function in many banks.

Likewise Maguire and Ojiako, (2008), reports of the failure of information systems and technology (IS&T) projects was set up driven by several factors, including poor project management and a lack of understanding of how systems can negatively affect organizations and customer relationships. They explained that there are expectations that staff involved with IS&T projects will have a minimum level of information technology competence. The introduction of IS&T could be “market-led” when the new system interfaces directly with a firm’s customers (Maguire, 2000).

The findings of this research, in general, provide support for the affirmation made by scholars (Seybold,2002; Kim & Lennon, 2010; Fleisher et al, 2008; Gounaris, et al., 2007) The effectiveness of marketing information system is set up to compose both internal and external components, related on the one hand to the lengthening to which the user organization improves functional effectiveness and corporate climate and on the other to its adaptability to market conditions and its customer responsiveness.

More particularly, marketing information system could contribute to the proper identification of consumer needs and, as an outcome, help to cultivate a more satisfied and loyal customer (Barcheldor, 1999; Chatzipanagiotou, and Coritos,2010). Moreover, given that marketing information system is valuable and rare organizational resources, the findings supported the resource-based view theory (Barney, 1991), which states that firm with such resources will often be strategic innovators.

The outcomes show that the marketing orientation has positively significant impact on value equity. Synonymous to our expectation, the outcomes of this research demonstrated that information system quality has significant positive impact on value equity. The outcomes agree with previous research, which set up that applying computer models to consumer data to attract new customers, Retain existing customers, make more loans and attract more deposits (e.g., Borowsky, 1994, United States Banker, 1993; Nelson, 1999). Banks are in an excellent position to use database marketing programs since they have good information on customers’ income, lifestyle and product usage, Nelson, 1999). Customer needs can be met more effectively with the assistance of technology (McKenna, 1991; Amarvadi et al, 1995).

Furthermore, banks can use marketing information system technology to build customer relationships (Dawes and Worthington, 1996). Radding (1989) in his analysis of marketing information system technology brought out that without customer databases “relationship banking is almost impossible”.

The outcomes of the study showed that support service quality has positive impact on value equity. This concurs with prior studies, which emphasize the valuable role of system support
service quality. An effective marketing information system support can help improve customer service directly, as a part of the product itself, or indirectly through increased responsiveness to customer needs O’Brien et al., (1995). A system which is customer-led not only eliminates the possibility of sending duplicate mail shots to account-holders but more importantly provides a platform for segmentation and targeting, and assessing the “lifetime value” of customers (Petrison et al., 1993). The move towards IT-based marketing information systems will upgrade the quality of internal and external communication flows and ease better communication within organizations (Saaksjarvi and Talvinen, 1993).

Other authors coincide: information technology promises to help companies provide more consistent levels of service and cement relationships with customers (O’Leary, 1990). Improvements in customer service is being made possible by an underlying network of information technology (Austin, 1992). Smart companies will gain a competitive advantage by improving the delivery of customer service through information technology (Burgetz, 1992). Since such systems have important strategic implications (O’Brien et al., 1995) that influence both the company’s external and internal environment (Xianzhong, 1999). Pitt et al. (1995) were among the first to consider this aspect of marketing information system MIS effectiveness, by focusing on the service quality of the system.

The another valuable benefit of IT-based marketing information system is the ability to monitor a company’s market environment more effectively, specifically with respect to customer relations, and so to help managers and salespeople in meeting their marketing aims. Equally valuable is the contribution of marketing information system to improving the effectiveness and the efficiency of the marketing and communication efforts (Cassie, 1997; Sääksjärvi and Talvinen, 1993). During the exchange process, with the help of technology tools, sales people alter increasing amounts of data into a functional form that can be transferred to customers in a systematic way (Hunter and Perreault, 2006). The providers of the system support service is responsible for both designing and installing the marketing information system, as well as for ensuring its operational readiness (Caldwell, 1996; Lacity and Willcocks, 1998; McLellan et al., 1995; Palvia, 1995; Chatzipanagiotou & Coritos, 2010).

The philosophies behind these outcomes are that firms that are perceived as one way through which retail banks have sought to create this sustainable competitive advantage have been the utilization of information technology to support the marketing function Colgate, 1998). Intelligent marketing information systems can offer a way for marketing managers to share knowledge and expertise. Such sharing could help improve the economics and effectiveness of the marketing function, which is ultimately reflected in the marketing information system success of a bank’s

**Implications of the Study**

The current study has supported the present knowledge on business value of marketing information system within the field of banking industry. The first theoretical contribution is related to the marketing information system three component instead of four by concentrated on value equity. The second theoretical contribution the positive relationship between marketing information system and value equity (non-financial measures). The outcome of the study brought out that attention to the long-term well-being of value equity will lead bank’s to competitive advantage. This outcome is concord with previous studies by concentrating on marketing’s impact on individual customers, rather than the impact of aggregate expenditures, a firm can create a customer-centered approach to brand management (Rust,

Furthermore, information system & technology provides for increased competitiveness and flexibility in organizations, although at different degrees of impact. When properly carried out, it will allow the redesign of business processes that enable organizations to introduce operational efficiencies (Santhanan and Hartono, 2003; Bhatt and Grover, 2005) lead to gain competitive advantage compared with other competitors according to resource-based view (Branco & Rodrigues, 2006; Carter, 2005; Hart, 1995; McWilliams et al., 2006; Sinkula, 2005).

The third theoretical contribution of this research adds to the resource-based view approach by providing empirical evidence to support the impact of resource information, which describes the lengthening to which firm practices the resource-based view (Palaadino, 2006; and Balal, 2010). Particularly, the outcomes of this study represent that marketing information system is a resource, which is substantial determinant of customer equity in the form of value equity.

The fourth theoretical contribution this research set up that the three components of marketing information system do not equally contribute to value equity. While two components of marketing information system (information system quality and marketing orientation) have significant positive impact on a proportion of value equity, support service quality has the only positive impact on value equity. On the other hand, not like previous schoolings, which had measured the performance of customer equity by financial indictors or overall performance, this study used measures from customer equity. Recent research on the customer equity management (Bick, 2007; Vogel et al, 2008) illustrates that customer equity is still undergoing empirical and theoretical development. So, by adopting multidimensional customer equity to evaluate marketing information system, the study contributes by partly solving the reasons for the contradictory findings in previous studies.

For managerial implication, this study contributes towards management practice, three managerial levels that concerning marketing information system and can gain benefits or advantages from information taken out within these findings. Successful development of the marketing information system should provide an insight for strategic decision making process. For top management level, the marketing information system provides external environment and market-related information along with the analytical tools needed for strategic decision support. At the tactical or middle level management is interested in the database for functional information, such as that related to price, quality and convenience.

Lower-level management is concerned with the operational, and the marketing information system comprises the information technology that is used directly in customer handling for the purpose of increasing customer service. Further, adopting of IT-based marketing information system can help improves the quality of internal and external communication and contributes to improve the marketing relationship. It is worth mentioning that in this study each of the components of marketing information system was set up to be significantly related to a certain aspect of bank's customer value equity. While the impact of marketing orientation on value equity is highest than the other two components, followed by information system quality, however, the impact of support service quality on value equity is least one.
Limitations and Suggestions for Future Research

This research contributes to increased understanding of the resource-based view through testing the relationships between marketing information system, value equity the outcomes of this study must be interpreted with caution because of some certain limitations. First, while the research sample adequately meets the acceptable statistical standards, as well as demonstrates sufficient construct, internal and external validity, its inclusiveness of the Sudanese Banking sector is potentially limits its generalizability to other industry contexts such as the manufacture sector. Second, this research investigates the relationship between marketing information system and value equity across dissimilar forms in banking industry. A single industry research has much greater internal validity than multi-industry studies due to their ability to provide some control for industry influences (Slater, 1995). Third, the cross-sectional nature of the research and no control variable introduced is an obvious limitation of this study. Finally the converging outcomes from the multiple regressions' analysis, it can be deducing that marketing information system can be used to explain the customer equity variation among Sudanese banking industry. The regression analysis outcomes ($R^2$-values) suggest that a high percentage of this variation is still unexplained.

This research represents an attempt to build and test a theoretical framework of marketing information system and value equity. However, based on the limitations mentioned above, this research provides some propositions for future research. These suggestions are as follows: First, future studies can replicate this research using larger sample and dissimilar contexts such as dissimilar sectors or countries.

Marketing orientation and support service quality scale contains only four items, while there are many others that might be used to capture marketing orientation or support service quality constructs. Therefore, this warrants further research. The results showed insignificant relationships between support service quality and value equity. This suggests that the characteristics of the organizational variable may moderate the relationship between marketing information system, support service quality and value equity management. Further research is needed to investigate such relationships. Finally, the $R^2$ value in this study is 0.48 for the direct relationships between marketing information system and value equity. In general, there are many factors, not just marketing information system, that locate value equity. One imaginable factor is marketing strategies such as competitor oriented strategies. Further studies should introduce such factors.

Conclusions

This research is an attempt to enhance the understanding of the value equity concept. On the other hand, this research tried to test the relationship between marketing information system and value equity expressing the role that key components of marketing information system play in that relationship. The present research was run among 31 banks affiliated with the Central Bank of Sudan. This research has set up from its empirical outcomes that marketing information system contains of three components (information system quality, marketing orientation, and support service quality) and can be measured using 19 questionnaire items, which demonstrate internal consistency, its content and construct validity. The outcome also set up that Sudanese Banking Industry banks implemented marketing information system to low lengthening.
In rolling the business value of marketing information, this research provided empirical evidence that marketing information system can lead Sudanese banks to sustainable competitive advantage in terms of value equity. In so, this research outlined several aims, which it hoped and wished effectively to be grounded and conducted substantial long lasting in bank market place and add to the theoretical and practical implications.

References

The Relationship between Information System Quality and Customer Equity Management in the Service Sector

The Effect of Human Capital And Entrepreneurship On Total Factor Productivity In Economic Sectors In Iran

Abstract

In today's busy world, entrepreneurship, innovation and well trained human capital are providing the fuel for advanced economy engine. Global economy is going to experience great fundamental variations and renovations and organizations and production industries and service centers are not exempt from revolutions. At the other hand human capital is one of the basic necessities for improving the efficiency and accelerating the economic growth so the purpose of this research is to study the effect of human capital, research and entrepreneurship on the total factor productivity in three economic sectors in Iran during 1996 and 2005 using the panel data method. Results, represent the positive and meaningful influence of human capital and costs related to training entrepreneurship on the total factor productivity also it indicates that foreign direct investment is the other effective factor in improving the productivity of production factor in economic sectors in Iran.

Keywords: Human capital, Entrepreneurship, Total Factor Productivity, Iran.

Introduction

Improving the productivity, as one of the efficient ways of increasing economic growth rate which is highly noticed with program planners and policy makers in different countries and a lot of investment have been devoted in this regard. Investing for improving the human capital and research and development (R&D) are the examples of government's actions for improving the productivity. Economic growth is achievable by means of research and study. Also regarding the economic growth theories it can be mentioned that human capital and research and development are two main categories of endogenous growth theories and economic growth in developed countries demonstrate that these 2 factors play great role in increasing the economic growth in these countries. Japan is one of successful countries which have been able to reach the high level of development applying the promotion in total factor productivity. In 1993-2002, promotion in total factor productivity resulted in 47 % of economic growth in Japan comparing to 1.8 % in Iran (Amini, 2006).

Productivity is very important in achieving national, commercial and personal goals and since in future more production using the same amount or even less amount of resources will
be possible and life level will be improved, the advantages of growth in productivity is visible for society. Future proportion of economic benefits can be increased by modifying productivity and as a result each individuals share will be enhanced and in this way conflict between different groups who struggle for more shares will be decreased. Continues growth in productivity is the only option for a nation to cope with basic difficulties like Inflation, unemployment, increasing trade deficit and unstable money. Also from the individual point of view promotion of productivity depends on the promotion of real life standards and applying the existed resources in the best way for amending the quality of life (Mostafapour & Shahmoradi, 2010).

Developed countries in recent decades and some of underdevelopment countries in recent years have focused on utilization of economic entrepreneurs facing with problems such as recession, inflation and unemployment considering the important and positive role of them by developing strategies, policies and practical plans to improve the spirit and behavior of entrepreneurs, training and Consulting, creating favorable climate for entrepreneurs in various areas of economic – social activities, removing obstacles and creating connections and cooperation between them and facilitate their access to global markets. Considering the noticeable position of entrepreneurship and other related subjects in sciences like economy and psychology, it can be mentioned as an Interdisciplinary subject which represents the extension and complexity of the subject. The next subject which has been high lightened the importance of entrepreneurs is the concerns of Economic management and politicians in different countries in the field of employment and unemployment, considering the self-employment increasingly as a solution (Farid, 2009).

Employment growth and unemployment is considered as economic problems, so the role of entrepreneurship in creating opportunities for employment and resulted increasing productivity and economic growth cannot be ignored. Therefore, in order to achieve it, the nature and various dimensions of entrepreneurship should be identified and improved by investing over the issue. Meanwhile, the government has an important role in providing the context of entrepreneurship and can change the cultural values in country and on the other hand it has great role in providing job opportunities.

Entrepreneurship development is an important issue and governments step along it implementing programs and policies. However, each country define certain objectives through entrepreneurship according to its needs, however, governments are looking for similar goals such as increasing the employment, economic development, increasing the competitiveness in economy and market efficiency, promoting innovation and developing the publishing of technology, helping to increase exports, achieving regional development and reducing the monopoly of big companies, decentralization and increasing the private sector participation within the economy. For achieving these goals governments should fully understand the problems small businesses are faced with (Mostafapour, Shahmoradi, 2010).

Therefore considering the mentioned discussions and recent approach to economic, social and cultural development of Iran which trend to the international trade and interact with the world economy and enhancing human capital through raising the level of education and academic education, this study investigate the effect of human capital and entrepreneurship on total factor productivity in Iran in different economic sectors during 1996 and 2005.

**Literature Review**
Effective factors on total factor productivity

In the theoretical bases of economic growth, part other than quantitative growth of work force and capital is relevant to the growth in total factor productivity. To explain the determining factors of growth remaining, endogenous growth theory has been proposed in economy, remarkably, in exogenous models, the remaining component of growth is attributable to technical changes, which will lead to technical progress and the following definitions are extracted:

Gaining more products using same amount of inputs and quantities, this means that the same amount of products can be gained using less quantity of inputs by promoted technology. New products are opposed to technical improvement, which means that the quantities of products are constant but the quality is enhanced. Completely new products are produced.

In endogenous growth theory, which was introduced to cover the inadequacy of Neoclassic theories in explaining the basic behavior of the growth, technical development is considered as an exogenous factor (Jones, 1991).

Endogenous growth model was first introduced by Lucas, Romer, Barro and other researchers with constant rate of growth as an endogenous. In this model, constant growth rate depends on the Utility function parameters, production and etc and economic growth happen as a result of a set of mechanisms within the economy like human capital development, promotion of productivity, R&D and effective and qualitative costs of the government. The main characteristic of this model is the absence of ascending returns regarding the accumulated inputs that results in continuous growth. In general endogenous growth theories are divided to two main categories:
- Theories depending on human capital, relating the stable long term growth to human capital accumulation.
- Theories depending on R&D known as economy science, believing the technology development through investing in R&D and inventing new ideas (Darghahi and Ghadiri, 2003, 21-25).

Growth theories based on human capital

Quality of work force is the main factor affecting the promotion in productivity. Until the early 1950s, shortage in physical capitals was mainly believed as the main reason of lag in developing countries and as a result In light of such thinking and imaginary, these countries attract capital from different ways which bring about numerous negative effects in worsening the dependency in these countries. Nowadays the importance of investment on human capital and improving the quality of human resources as bases and fundamental factors of increasing the productivity and accelerating the economic growth in the society is well recognized since human capital is a completely economic concept and in fact qualitative characteristics of mankind, generate productivity and income, increase production and result in safety, is kind of capital (Amini, Hejazi azad, 2008).

Kuznets, winner of economy Nobel Prize in 1971 believed that defining capital as only physical and material concept is a wrong definition and both human and physical capital should be considered. Developed industry, equipments and machineries are not human capitals in one country. In fact information resulted through various tests and researches and experience and ability of people for utilizing them are the main capitals (Sobhani, 1992).

Usually relationship between growth and human capital are studies in two frames. in the first theory based on the studies done by Lucas in 1988, human capital accumulation is considered as the suppliers of stable growth and specially two main parameters of human capital...
accumulation, education and learning while working are differed. While in the next theory based on Nelson & Phelps approach (1996), growth is the consequence of human capital which affects the abilities of one country in innovation and reaching the development level in developed countries. So the difference between growth rates in countries depends on the human capital and resulted difference in capabilities in growth of technology (Amini, Hejazi azad, 2008).

Lucas endogenous growth model distinctly differed human capitals from physical capitals and entered them as inputs to production function. Also it is assumed that human and physical capitals are produced by different technology and educating the human resources for weakening the diminishing return is emphasized and in this way long term growth of product per capita won't be zero. Lucas believed that assuming the constant return to scale for accumulative inputs is possible and he used the term "human capital" instead of correction in physical number of mankind in production function. In endogenous growth model, human capitals can be accumulated by means of investment, everybody chose the duration of education himself. So it is assumed that human capital is a accumulative input with Constant returns to scale and the final production which defines the necessary motivation for passing the time period for education is constant.

Theories based on R&D
Recent theories on endogens theories tend to models which define the long term growth by emphasizing the developments in technology and R&D. In other word the importance of this concept in the world encourage the Economists like Romer(1990) and Grosman and Helpman(1991) to enter this parameter in the growth model and gain more accurate and real results which match the common facts in world today.

The role of R&D as the engine of economic growth in growth theories is emphasized. First of all R&D introduces new products that may have more and better effect in production rather than present capital goods, because production depends on different types and quality of capital goods. So if the production function has diminishing return regarding the inputs, endogens growth will be achieved. This idea was presented by Romer(1990) and Barro and Sala-i-Martin(1995).

The second effect of R&D on economic growth is side effects on quantity if science and technology which reduces the costs of R&D, Constant returns to investment in research and development so businesses invest constant amount of sources in R&D resulting the constant rate of growth in quantity of science and technology (Amini, Hejazi zade 2008).

Theories of productivity and entrepreneurship
Entrepreneurship is important in productivity and economy. Since it is the main source of economic growth and wealth generation. One-third of the differences in national economic growth can be attributed to differences in entrepreneurial activity. Entrepreneurial activities can explain differences in GDP growth among countries. Henderson show that at local level, creation of more jobs, wealth, increasing the local incomes and providing connection to larger global economy are the main role of entrepreneurs. Also through research and investigation, it can be concluded that productive entrepreneurial activity is the main source of economic growth.

Present processes in GDP and general factors of productivity and economic growth in the former socialist economies show that these economies have been converged. Development of
endogenous growth models of entrepreneurship is able to deal with the differences in
operation in long-term between centrally planned and market-oriented economy and to
increase production and productivity through the development of knowledge management
that is to be involved in entrepreneurial activities in the long term. Development of various
present models of entrepreneurship, complete the role of entrepreneurial and the
work. Entrepreneurs can produce good materials in two ways:
1- Existing entrepreneurs can increase competitiveness through mimicked product release
with a little change.
2- Entrepreneurs can pay the R&D costs which lead to major changes in technology and
increase the productivity and production.
Joseph Schumpeter describe entrepreneurship as the main driving force in economic
development by innovating or creating new combinations of materials which means the new
product offering, providing a new method in the production process, opening a new market,
finding new resources and establishing new organization in industry and as a catalyst that
provides sparking economic growth and development (Mostafapour and Shahmorad, 2010).

Max Weber, the great German sociologist, In explaining the formation of modern industrial
civilization and capitalism in the West refers to the concept of the modern language, the
culture of entrepreneurship. Also in his idea, developing the entrepreneurial culture is
influenced by four factors: the encouragement to work for the prosperity, risk for changing
the destiny, future planning and saving for the future (Pardy and Howe, 1999).
Here are a few of the experimental studies are discussed.

Ahmadi Shadmehi and et al. (2010), have evaluated the Enhancing the role of human capital
in productivity of total production factors in Iran's economy during 1978-2005. In this regard,
both health and education were considered as human capital and alongside other factors
affecting the productivity level, their influences were discussed. Results of ARDL method
declare that average years of education for work force and health care spending to GDP ratio
(As substitute of human capital through education and health) have significant positive effect
on productivity levels. Also the causality test results confirmed the one-way causal influence
of human capital on total factor productivity.

Coe and et al. (2008) examine the impact of human capital and institutional variables such as
patent rights on economic growth using the Co integration Technique. The results suggest a
positive effect of R&D and human capital on growth. Wei and Hao (2008) in a study to
examine the role of human capital on productivity growth of total production factor in 30
provinces of China during the years 2004-1985 using the panel data, entered human capital,
measured by enrollment rates at different levels of education as the quality of education, into
the model. The findings of this study implied that human capital has significant positive
effect on productivity growth of total factor in China.

Golrad (2008), in an article, has discussed the affecting indexes of the productivity of
women's entrepreneurship and based on a survey on women entrepreneurs, their productivity
indicators are defined. The results show that according to the experts, growth indexes in sales
and innovation in production, production methods and innovation in the market and
providing economic requirements of families, gaining power and prestige in the community,
job satisfaction, family welfare and balancing work and family life are determining as the
main productivity indexes for women entrepreneurs among which innovation in production
methods and balancing family life and work Women entrepreneurs are considered as the most
important indexes.
Rvtroml and et al. (2007) with a review of 146 published academic articles during 2005-1981 struggle for recognition of the important trends in the field of entrepreneurship. They believe that entrepreneurial activities in the university are part of natural system progress which emphasizes the economic growth.

Senobar (2007) in a research studied the role of entrepreneurship in explaining the economic growth and government duties and reviewing the effecting parameters on changing the paradigm of growth, characteristics of economy based on management with entrepreneurial economy and examined the government duties to support the entrepreneurial environment. Komijani and Memarnezhad (2004) examined the importance of quality of human resources and R&D on economic growth through endogenous growth models and using the Romer endogenous growth models (1990) designed a model for economic growth for the time period during 1958-1999 by Auto Regressive Distributed Lags (ARDL) method. The results confirmed the positive impact of workforce, human capital, physical capital, revenues from oil exports and negative impact of inflation and virtual variable related to Islamic Revolution of Iran on economic growth. However, in this study due to low volume of R&D costs and also low ratio of non-oil exports to gross national product and its traditional structure no significant and meaningful relation between R&D and non-oil exports were found.

**Methodology and Research Design**

Since the quality of human resources is the main effective factor in improving the productivity and considering the researches and studies, entrepreneurship generating activities are the main source of economic growth and productivity and entrepreneurs can pay for the costs related to R&D which bring about more productivity and increase the production of materials. So in this study effect of human capital and entrepreneurship costs on total factor productivity in three economic sectors, mine and industry, agriculture and construction, in Iran is investigated using panel data.

Considering the literature review, design introduced by Coe-Helpman (1995) and Ji (2006) is used in this study and the model is specified as follows:

\[
\ln P_{it} = \alpha_i + \beta_d \ln EN_{it} + \beta_h \ln H^h_{it} + \varepsilon_{it}
\]

Where \( P_{it} \) denotes the productivity index of production factors in different economic sectors in Iran, \( EN_{it} \) is the costs of applicable researches as entrepreneurship index of each parts, mine and industry, agriculture and construction, \( H^h_{it} \) is the average education period of employees in each part as substitute for human capital variables, \( \varepsilon_{it} \) is the random disturbance term, \( I \) is the studied sector and finally \( t \) is the time period.

Data related to variables is extracted from data and information center of central bank and those of human capital from Iran statistic center. Also for further studies in other effective parameters on productivity of production factors in different sections, foreign direct investment (\( FDI_i \)) extracted from World Bank (2010) data achieve is entered the model. Considering the econometrics issues, mentioned model was estimated using Unbalanced Panel Data for Fixed Effect & Random Effect and for detecting the proper method Hausman Test was performed. So at first for all equations the F test was performed to determine whether the intercept in all sections is constant or no. according to results and F Statistic that are shown in table 1, it was clear that intercept in sections was not constant and \( H0 \) was
rejected. On the next step Hausman Test was performed to discuss whether the difference in intercepts is constant or it has a random operation. H0 in Hausman Test means that Random effects method is efficient and compatible. According to the statistics of Hausman Test which are provided in Table 1, difference in intercepts is constant so the results are estimated using appropriate methods, The Fixed Effect.

**Discussion of Findings**

According to the results the estimation results in different economic section in Iran shows that all variables have the expected sign. Also costs of entrepreneurship variable have significant positive effect on productivity of all factors in Iran's economy (industry and mining, agriculture and construction). In other words, by 1 percent increasing the entrepreneurship costs, productivity of production factors in three sections will be improved by about 0.23 percent. As expected there are positive and significant relationship between human capital as well as foreign direct investment and productivity of factors in examined sections. This result is compatible with the theoretical framework of the study.

Table (1) -Results of estimating model for sectors

<table>
<thead>
<tr>
<th></th>
<th>Model (1)</th>
<th>Model (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>3/11 (0.000)*</td>
<td>2/52 (0.000)*</td>
</tr>
<tr>
<td>LH?</td>
<td>0.077 (0.0266)**</td>
<td>0.25</td>
</tr>
<tr>
<td>LEN?</td>
<td>0.023 (0.0073)*</td>
<td>0/055</td>
</tr>
<tr>
<td>LFDI</td>
<td>-</td>
<td>0/011</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.99</td>
<td>0.95</td>
</tr>
<tr>
<td>$\bar{R}^2$</td>
<td>0.99</td>
<td>0.95</td>
</tr>
<tr>
<td>No. of observations</td>
<td>27</td>
<td>24</td>
</tr>
<tr>
<td>F Statistic</td>
<td>4/22 (0/0273)**</td>
<td>4.68</td>
</tr>
<tr>
<td>Hausman statistic ($\chi^2$)</td>
<td>5.56 (0/0158)**</td>
<td>4.89</td>
</tr>
</tbody>
</table>

Note: *, **, and *** represent significant at 1%, 5%, and 10% level and all the digits display prob.

Positive and significant impact of human capital on the productivity of production factors of can be expressed as following: Human capital as inputs in addition to other production factors, will result in production processes improvement, capital deepening, technological progress and progress in quality of the workforce and consequently will lead to increased value added in enterprises, different sections and all country, and ultimately economic growth, increasing the productivity of production in all sections and consumer welfare. On the other hand, costing on entrepreneurship as well as the direct foreign investment which transfer the knowledge inside the country will raise total factor productivity. So that using the model of foreign direct investment, entrepreneurship and human capital influence on the productivity of production factors in various economic sectors is improved and the estimated
coefficients are, respectively, 0.055 and 0.25. Results of studies on the effect of human capital and entrepreneurship costs on total factor productivity in three economic sectors in Iran, industry and mining, agriculture and construction, during 1996 - 2005 have been identified in two different models.

**Conclusion**

Today all developed and developing countries have emphasized the importance of productivity as one of the necessities of economic development and competitive advantage in the international arena. Accordingly, to promote and enhance a culture of productivity a lot of investment has been done. Performance of countries that have significant economic growth in recent decades has reflected the fact that most of these countries have earned a large share of economic growth through increased productivity. Since the number of researches done in Iran regarding the effect of human capital on the productivity of production factors in different economy sections in Iran are very low, and also the studies in this field didn’t report the same results about the effect of human capital on the productivity of production factors, in this study the effect of human capital and entrepreneurship costs on total factor productivity in three economic sectors in Iran, industry and mining, agriculture and construction, during 1996 - 2005 using the panel data was discussed.

For this purpose F statistic and Hausman Test were performed and after selecting the appropriate method in estimating the model, results in various states of the model with regard to human capital, foreign direct investment and entrepreneurship were analyzed. The results of the descriptive studies indicate that industry which has allocated the main import of the country has higher share in improving the productivity and this fact demonstrate the importance of industry in promoting the productivity of production factors. In general Model estimation results have indicated that mentioned variables have positive and significant affect on total factor productivity in different economic sectors in Iran. On the other hand raising the average duration of education period of employees, using the foreign direct investment and entrepreneurship costs improve total factor productivity in Iran's economy. Also according to the results, factors affecting the productivity of production are divided to internal and external factors in a way that entrepreneurship costs and human capitals are regarded as internal factors and foreign direct investment is classified as external factors. Wherever, attracting FDI will lead to foreign technology and knowledge transfer and subsequent improvement in efficiency of production factors and later by localization of the transferred technology along with developed entrepreneurship, negative consequences of reduced international trade (which can occur due to global crisis) can be prevented.

**References**

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Privatisation Gone Wrong? The Corporate Tea Sector of Sri Lanka

Summary

The history of Sri Lanka has been intertwined with that of its tea industry from as far back as the early 19th Century. Since its introduction to the island, Ceylon Tea has grown to become internationally reputed as a premium quality product. Nevertheless, the industry’s future is now clouded, with many of its challenges ironically arising out of the very same factors which cemented the brand’s leading position today: quality and history.

The primary reason for Sri Lanka’s reputation as a leading producer of tea arose out of the skilful ‘two leaves and a bud’ method of hand-plucking, lending Ceylon Tea its distinctive flavour and aroma. Unfortunately, reliance on the intensive manual labour required to maintain this quality over cheaper and less precise mechanised harvesting has led the industry to its current position of unsustainably high costs of production, driven almost exclusively by sharp increases in labour costs.

A second factor working against Ceylon Tea is time. The industry has been witness to an incremental decline in the volumes of tea being produced, due in large part to lower yields from ageing tea bushes, at a time when replanting costs are considered prohibitively expensive.

Both factors have been highlighted by several parties on numerous occasions as threatening the future of the country’s tea industry, which in turn is likely to have both socio-political and economic ramifications for Sri Lanka, and yet, despite an overhauling of the management of tea plantations through privatisation, these same challenges remain unresolved.

With strains on both quality and quantity increasing, the cracks are starting to spread and it is now clear that remedial action is only possible through well-informed policy-making. In that regard, this publication aims to shed light on the root causes of the industry’s current impasse, thereby helping to chart a course toward a stronger market position better suited to the brand Ceylon Tea.

Introduction

The Tea Industry in Sri Lanka

Sri Lanka’s tea industry occupies a pivotal role in its 59 billion dollar economy, employing over a million people and accounting for almost 1.6% of GDP. The industry contributed 1.5 billion dollars to the country’s foreign exchange earnings (Central Bank, 2010).

The industry has two distinctive segments of business – corporate and smallholders. The corporate sector accounts for 40% of overall production (Central Bank, 2010) and consists of Regional Plantation Companies (RPCs), managed by large, blue chip, diversified corporations.
Tracing the history of Sri Lanka’s tea industry, in the early 1970s, large extents of plantation lands were acquired by the Government of Sri Lanka and vested under State institutions called the Janatha Estates Development Board (JEDB) and Sri Lanka State Plantations Corporation (SLSPC) under the Land Reform Act No. 1 of 1972.

However, given the increasing inefficiency of the JEDB and SLSPC, which accounted for almost 40% of the production of tea, Government assistance was required to offset the mounting operational losses, which had increased to almost Rs. 1.5 billion by 1992 (Central Bank, 1992). The Government’s decision to privatise the management of this segment of the tea industry led to the formation of the RPCs.

By end 1992, 23 RPCs were set up. The administrative structure of the RPCs was that 100% ownership was retained by the Government. Each RPC was assigned lease-hold rights of between 12-29 estates for a period of 99 years for a nominal lease rental, but due to political pressure it was adjusted to a 53-year timeframe renewable based on a performance appraisal. A typical RPC was also permitted to charge a management fee for the services rendered, regardless of the ability to make a profit or loss, which was a key pointer for the private sector to agree to this arrangement. RPCs were also required to pay a lease rental to the Government on a quarterly basis on the asset that was on lease.

**Symptoms of a Deeper Problem**

15 years into the privatisation of RPCs, the 1.5 billion loss-making segment of tea that accounted for almost 40% of the tea production of the country recorded a net profit of Rs.14.9 billion (TRI, 2007). Many started commending the policymakers for making the country’s first privatisation venture a success. There was much media hype on the success model, yet some began to question the real health of the privatised tea industry. Some of the points highlighted in the media were the declining production volumes of RPCs and the non-payment of lease rental by RPCs to the Government. However, the situation was blurred as most of these ad hoc negative reports appeared only at the times when the controversial wage rate discussions took place between RPCs and trade unions, once in three years.

1) Production

<table>
<thead>
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<tbody>
<tr>
<td>Sri Lanka's Export Share (%)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sri Lanka's Production Share (%)</td>
<td>20.8</td>
<td>15.9</td>
<td>10.5</td>
<td>9.3</td>
<td>10.4</td>
<td>9.5</td>
<td>9.3</td>
<td>9.2</td>
<td>9.0</td>
<td>8.8</td>
</tr>
<tr>
<td>Sri Lanka's Export Share (%)</td>
<td>35.1</td>
<td>32.0</td>
<td>21.5</td>
<td>19.1</td>
<td>21.6</td>
<td>20.8</td>
<td>18.6</td>
<td>19.1</td>
<td>19.9</td>
<td>18.8</td>
</tr>
</tbody>
</table>

*Source: TRI 2008*

On absolute volumes, as of 2007, the overall production of tea had declined to 304.6 million kg as per table 2 (Sri Lanka Tea Board, 2008), registering a 5.5% decline over the three-year time period, indicating a deep-rooted and unaddressed problem. If one were to compute the annual loss of approximately 5.5 million kg of tea at an average selling price of US$ 3.29 per kg, it would mean Sri Lanka has lost $ 18.1 million or Rs.1.9 billion a year.
On the RPCs’ performance front, the output of tea in 2002 which was around 148.5 million kg of tea has declined to 126.3 million kg by 2007 (TRI, 2008), with volume loss in the RPCs bring higher than the overall national picture, as seen in table 2 (Sri Lanka Tea Board, 2008).

### Table 2: Total Tea Production (‘000 kgs) 2002-2007

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Tea Production (mkg)</td>
<td>310.6</td>
<td>303.3</td>
<td>308.1</td>
<td>314.8</td>
<td>312</td>
<td>304.6</td>
</tr>
<tr>
<td>RPC’s Tea Production (mkg)</td>
<td>148.5</td>
<td>143.9</td>
<td>136.6</td>
<td>138.8</td>
<td>128.3</td>
<td>126.3</td>
</tr>
</tbody>
</table>

(Source: Ministry of Plantations – 2008)

If the RPCs had maintained a consistent level of output in the above time period, an additional 93 million kg of tea could have been included in the export volume of Sri Lanka (Source: Data given by RPCs for the D.E.W. Gunasekera Committee 2008). This volume drop of 93 million kg during the six-year time period at an average price of US$ 3.29 per kg price would mean a significant loss of US$ 305 million (TRI, 2009) in incremental revenue. Such an analysis points to the fact that if the privatisation process had delivered the desired results as highlighted by the Government, this key issue would not have been highlighted. This clearly means that a deeper issue exists but has not identified.

### Lease Rentals

The second area that was highlighted in the media was the non-payment of lease rentals. By end 2007, the arrears on lease rentals outstanding to the Government by the RPCs amounted to Rs. 230 million, with almost 65% of the RPCs (13 RPCs) defaulting on the payments (Ministry of Plantations, 2008).

If one were to analyse these arrears against the net profit earned by the RPCs during the period 1996-2007, it is 1.4%. If the outstanding value by way of the lease rental was computed only for the financial year 2006/2007, the percentage will be only 4.08% of the net profit of the RPCs as per the published annual reports (Central Bank, 2008). This further inferred that a deeper issue existed post privatisation that had not been identified or addressed.

### The Need for a Structured Evaluation Method

Over 50 reports have been generated by multiple committees on the tea industry, yet there is an absence of an overall evaluation of the RPCs post privatisation. In the most recent report by a 10-member committee appointed by the President, the scope of the study was restricted to land ownership, compensation, replanting, management fees, lease rental, soil erosion, and forestry.

Furthermore, these reports do not evaluate the RPCs from the different stakeholder perspectives, which has resulted in the more strategic elements, such as policy reforms that are required due to the changing market conditions, not being addressed. This has led to failure in introducing structural changes to RPCs operating mechanisms, which in turn has resulted in adverse publicity not only for the industry but also the Government, which is collateral damage. It is clear that an acceptable method of evaluating RPCs does not exist in the tea industry, leaving many issues unaddressed by policymakers and the corporate sector.
**Empirical Work**

Having establishing the need for an acceptable method of evaluating the RPCs post privatisation, the author embarked on a process of developing a framework to assist the Sri Lankan corporate tea sector and its stakeholders. The author reviewed three recommended approaches to design the evaluation framework which will be of a holistic nature and acceptable to different stakeholders: Michael Porter’s Framework of five competitive forces; Value Chain Analysis for development; and The Balance Scorecard technique.

Michael Porter’s Five Force Model: Porter (1985) identified five competitive forces interacting within a given industry: intensity of rivalry among existing competitors, barriers to entry for new competitors, threat of substitute products and services, bargaining power of suppliers, and bargaining power of buyers. The Five Forces analysis helps in identifying and determining the attractiveness of an industry and the source of competition. Since they reveal insights on profitability, it can inform important decisions about whether to leave or enter industries or sectors. The model can also be used to compare the impact of competitive forces on the own organization with their impact on competitors. One of the criticisms of the Five Forces is that it assumes relatively static market structures.

The Value Chain Analysis: This framework focuses on industry attractiveness as a determinant of the profit potential of all companies within that particular industry. Value Chain Analysis provides a generic framework to analyse both the behaviour of costs as well as the existing and potential sources of differentiation. Shank & Govindarajan (1993) argue that the value chain framework is an approach for breaking down the sequence (chain) of business functions into the strategically relevant activities through which utility is added to products and services. Limitations are some potential weaknesses in using this as a managerial tool.

The Balance Scorecard is a strategic performance management tool originated by Drs. Robert Kaplan and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more ‘balanced’ view of organisational performance. The complexity of modern organisations means that simple or one-dimensional analyses are not enough and is very relevant to RPCs.

The public sector has long been forced to use a wide range of performance indicators, which can be formulated with a Balance Scorecard approach, which means that RPCs can use this model. The author believes this model is ideally suited as a mechanism for a structured evaluation of RPCs, but it had to be modified to fit the requirements of the stakeholder.

**Development of the Strategic Evaluation Framework**

A framework was conceptualised based on the parameters that emerged from the literature review, which was then applied as an approach to conducting a Strategic Evaluation Framework (SE framework) across the total RPCs representing the country’s tea sector. Based on this analysis, the Balanced Scorecard was modified and proposed by the author. The author also used the grounded theory method as explained by Glaser and Strauss in 1967 in the development of the SE framework. By using this method, the author had to abstract the data and think theoretically rather than descriptively. The pattern that emerged from the multiple case study approach led to the development of the following conceptual framework:
Based on the development of the SE framework, a quantitative analysis was carried out to establish the weightage that should be assigned to each attribute. The findings were as follows:

<table>
<thead>
<tr>
<th>Financial Criteria (30% weight age)</th>
<th>Operational Criteria (30% weight age)</th>
<th>Long-Term Investment Criteria (20% weight age)</th>
<th>Stakeholder Relationship Criteria (20% weight age)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue growth</td>
<td>Crop productivity</td>
<td>The use of fertiliser</td>
<td>Payment of lease rental to state</td>
</tr>
<tr>
<td>Gross profit and Net profit</td>
<td>Production of crop levels</td>
<td>Replanting rate</td>
<td>Payments by government on land acquired</td>
</tr>
<tr>
<td>Overall asset value</td>
<td></td>
<td>Agricultural investment on capital expenditure</td>
<td>Policy changes to market requirements</td>
</tr>
<tr>
<td>Return on capital investment</td>
<td></td>
<td>Training for workers</td>
<td></td>
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<tr>
<td>Charging of management fees to sales</td>
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**The Second Research Phase**

During the second phase of the study, a quantitative survey of 17 RPCs was conducted. The survey was based on the SE framework and used published data as per attributes recommended by RPCs, as well as the relevant ministry of the Government for 2006 and 2007.

**Key findings using the SE Framework and Discussion:**

**Financial Criteria**

*Profitability*

During the period 2004-2007, RPCs’ revenue growth increased by almost 63% on absolute value as per table 5. The gross profit average meanwhile, registered between 11% and 19%, whilst the net profit averaged between 2% and 10% (Ministry of Plantation, 2008).
Table 3: RPCs Revenue, Gross Profit and Net Profit 2002-2007

<table>
<thead>
<tr>
<th>RPCs</th>
<th>Revenue</th>
<th>Gross Profit Margin %</th>
<th>Net Profit Margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>25.6</td>
<td>28.7</td>
<td>32.4</td>
</tr>
</tbody>
</table>

(Source: Ministry of Plantations, 2008)

Despite the seeming strength of these numbers, inflation in the country during the three years under review was between 11% and 15% (Central Bank, 2008), due to which the RPCs were making a loss, leading to the RPCs cutting costs to make their business financially viable. If one were to analyse the cost structure, the current Cost Of Production (COP) of tea manufactured by RPCs in Sri Lanka is the highest amongst all exporting countries (ADB, 2010). Labour cost accounts for a significant portion of the cost structure of a RPC, contributing as much as 60% towards the cost of manufacturing a kilogram of tea (ADB, 2010).

The collective agreement sees a wage increase once every three years and is not based on an objective analysis of inflation and productivity, but on a political platform between trade unions and the Government. Therefore, the increase in wages becomes a key variable on the computation of COP. This leads to concerns regarding RPCs having little control on the cost structure of the business.

In the period between 1995 and 2001, the wage rate of a worker grew by an annual average rate of 8%, from Rs. 72.24 to Rs. 121.00 (ADB, 2010). During the immediate post-privatisation period, the wage rate was increased by almost 180%, going up to Rs. 310 in 2008 (TRI, 2009).

In the latest revision that took place in the 2011 collective agreement, the overall wage per worker was increased to a staggering Rs. 510, costing RPCs almost Rs. 10 billion annually (Yogaratnam, 2009). With the cost of production exceeding the net sales average per kilogram of tea, the private sector has warned that the whole industry is in jeopardy.

Return on Capital Employed (ROCE)

On the aspect of Return on Capital Employed (ROCE), back in 1996 the average was as low as 2% and in 2007 it increased to a healthy 17% as per table 4 (Ministry of Plantations, 2008). However, this figure is below the interest banks offered during that time period in Sri Lanka. To be specific, one can earn more by investing in a financial instrument such as a Government Treasury Bill, than by investing in the country’s tea industry managed by the private sector. This once again explains the financial viability issue that the industry is up against, even after privatisation.

Table 4: RPCs’ Gross Profit and Net Profit 1996 and 2007

<table>
<thead>
<tr>
<th>Name of RPC</th>
<th>1996</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenue</td>
<td>Gross Profit</td>
</tr>
<tr>
<td>Total</td>
<td>161.1</td>
<td>131.5</td>
</tr>
</tbody>
</table>
A possible solution recommended was for the State to encourage diversification as a strategy with key policy reforms so that RPCs could focus on other business areas other than tea and become financially viable. This can be through commercial forestry, agriculture tourism, renewable energy, vegetable and fruit cultivation for export purpose, gemming, animal husbandry, and perhaps even carbon trading. However, for this to happen, the lease period will have to be increased from a current 53 years to at least a 99-year time horizon.

**Asset Value**

In 1996 the total assets value as mentioned in the Annual Reports of the RPCs is Rs. 25.6 billion, whilst in 2007 it records Rs. 19.9 billion (Ministry of Plantation - Monitoring Unit, May 2008). This means that the lands leased out to the management agents have been used without a value addition. But this has never been addressed by the State.

**Operational Efficiency**

**Production**

If the RPCs had maintained the same level of output, a further 93 million kilograms of tea could have been added in the last six years. This drop of 93 million kg during the past six years – at the average FOB price of US$ 3.29 per kg price, could have generated US$ 305 million as incremental revenue (D.E.W. Gunasekera, 2008).

One can argue that the loss in volume in the corporate tea sector would have resulted in higher prices at tea auctions. However, the reality was that the small holding sector, which accounts for over 60% of tea volume, increased tea output to maintain total production of tea between 310-325 million kg during this time period. The logic for this phenomenon between demand and supply is that Sri Lanka occupies a niche status in the global tea market by supplying 300kg of high quality tea per annum against a background of overall supply exceeding 4000 metric tons globally (International Tea Council, 2010).

Research reveals that Ceylon Tea can grow up to 425 metric tons whilst maintaining the current market prices (Sri Lanka Tea Board, 2011). The reason for this is that Ceylon Tea is used for blending purposes in tea hubs like Dubai and Russia, with low-priced tea from Vietnam and Thailand, to cater to the diversified lifestyle tea brands (Tea Board, 2011).

**Productivity**

Productivity of the RPCs is mainly dependent on the yields they can generate, which have dropped from 1,490 kg per hectare in 2000 to 1,323 kg per hectares by 2007 (Ministry of Plantations, 2008). Research reveals that declining production and productivity is due to the senility of the tea stock in the corporate tea sector. This in turn can be directed to the financial pressure that RPCs are faced with, as is evident in table 5 (TRI, 2009).

| Table 5: Average Land Productivity of Tea of RPCs (Kg/Ha) |
|-----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total (Kgs)     | 26.4         | 28.2         | 30.05        | 29.3         | 27.0         | 28.4         | 25.5         | 110.9        | 96.8         | 87.1         |
| Average         | 1323.1       | 1412.95      | 1502.8       | 1467.55      | 1350.4       | 1420.95      | 1278.9       | 112.4        | 97.2         | 86.4         |

(Source: Ministry of Plantations – September 2008)
A key remedial programme that can be implemented in the RPCs is a robust replanting programme. The Tea Research Institute of Sri Lanka forecasts that the current volume of 126 million kg output from the RPCs will decline to 98 million kgs of tea within the next five years. The loss to the country in terms of volume will be 28 million kg per annum, and in monetary terms it will be US$ 92 million, or a colossal Rs. 9.9 billion.

The Tea Research Institute outlined a theoretical scheme detailing how a replanting programme could be implemented. The problem is that for one hectare acre of tea to be planted, it will cost over Rs. 2 million. Considering that the financial Internal Rate of Return (IRR) is at 13.7, it would be fair to state that given the current profitability issues, replanting is not a viable option. This is the key reason why the current replanting rate of RPCs is at a low ebb of only 0.67%, when the norm indicates that it should be at 3% of land under cultivation (TRI, 2008).

### Long-Term Investment

**Replanting and New Planting**

The extent replanted as a percentage of total land area in the RPCs reveals the very low focus on this initiative. Ideally this should have been evaluated on a quarterly basis by the State so that corrective action could be advised on a more regular basis, ensuring a greater percentage of replanting throughout the year. This lapse is due to the absence of a strategic evaluation mechanism and the decision making forum not taking form.

Nevertheless, the performance of the small holding sector in replanting portrays an increasing pattern in comparison to RPCs, which depict a declining trend from 1994 onwards (Ministry of Plantations, 2008). The total small holder tea extent has increased from 75,800 ha in 1983 to 118,300 ha in 2005, showing an increase of 36% (TRI, 2008). This needs to be publicised by the relevant line ministry as a success case study so that RPCs can develop the next practice that the corporate tea industry of Sri Lanka needs to implement.

However, for such next practices to be identified, there must be a forum and a mechanism of highlighting success stories, rather than merely highlighting the negatives, as is the case now. This has created tension among policymakers, given the serious decisions that need to be taken, while also reducing the marketability of the industry for strategic investment.

### Extent of Replanting as a Percentage of the Total Land Areas of the RPCs

The key issue faced by RPCs is the internal rate of return (IRR) being only 13.7%, making the process of replanting non-viable. State support should be extended if replanting is to be carried out in the RPCs. However, the absence of an evaluation mechanism prevents such suggestions from surfacing, other than at times of the national budgeting process. Even then it is not paid the attention required due to the attractiveness of other industries, such as apparel.

### Investment in Training and Development

Upgrading of employee skills – both at the staff and worker grade – is critical to improve labour productivity and motivate them to engage in plantation work, which is perceived as unattractive. However, data shows that RPCs have not fully utilised the total financial assistance allocated from the donor-aided Plantation Reform Project for training facilities. Out of the monies allocated for staff training, 71.9% has been unutilised, while almost 96% of the monies for training of workers has been unutilised in 2007 (source: data from...
respective RPCs to the ADB, 2008). Hence these funds have been wasted by Sri Lanka due to the absence of a structured evaluation method.

**Stakeholder Relationship Criteria:**

**Lease Rentals**

As of March 2008, the outstanding value owed to the Government of Sri Lanka on lease rentals was Rs. 230 million and 65% of the RPCs had not paid the lease rental (13 RPCs), which could have been corrected if a strong regulator was in place.

This amount was outstanding when a Presidential Task Force was appointed in August 2008. Due to follow-up by the commission on the industry, this outstanding amount reduced to Rs. 179 million. This is a clear indication that if the industry is being monitored, a new set of standards can be set (Ministry of Plantations, 2008). The absence of such a mechanism only allows room for questions on the concept of privatisation to be raised, rather than instilling correct behaviour governed by the framework set by regulations.

**Management Fees**

A cabinet memorandum dated 18 August 2008 by the Minister of Plantations reports that after 16 years of privatisation, the net profit generated has been Rs. 14.9 billion, whereas the total management fee charged from the RPCs has been Rs. 11.3 billion. This highlights an anomaly – after charging such a colossal management fee, a lease rental of Rs. 179 million, which accounts for only 4.1% of net profit for 2007/8, could not be paid (Ministry of Plantations, 2008).

The researcher identified that on the area of finance, costs incurred by the RPCs are extremely high (RPCs’ Annual Reports, 2009). A closer analysis should have been done by a regulator to determine the financial viability of the projects on which monies have been invested. The regulator would then also be aware of the impact on overall efficiency of RPCs, allowing the low profitability reported by RPCs to be addressed.

It is very clear that RPCs are working on a short term financing model and therefore do not want to invest in research and product development or embark on brand building initiatives, such as those carried out by companies like Tata – India. These aspects should be recommended by the State through regular review and financial assistance should be extended if required, as was done when power tea brand Dilmah was developed around 20 years ago in Sri Lanka.

**Commercial Forestry**

Monies earned from the timber harvested by the RPCs amounts to Rs. 850.9 million (Ministry of Plantations, 2009). As per State laws, Timber Corporation stumpage fees amounting to 40% of the value of the tree must be paid to the State Treasury. Furthermore, if the trees were planted during State ownership, then the entire proceeds must be paid to the Treasury.

**Outstanding Compensation due to RPCs**

One of the key issues of the RPCs was the acquisition of land by the State from the RPCs for public purposes. Some of these lands were productive areas and in fact were prime sites for production of tea. As of August 2008, the outstanding value owed to the RPCs was Rs. 489 million (Ministry of Plantations, 2009). Land had been acquired by the State for public purposes like construction of places of worship and village schools. Even such actions need to be audited, and compensation paid as per the agreement between the Government and
private sector. However, in the absence of a structured evaluation process, this too has not addressed. One of the key reasons that RPCs have not paid the lease rentals due to the State is because the State in turn owes RPCs a similar value on compensation based on the acquired land.

**Conclusion and Recommendations:**

It is evident that due to an absence of a structured mechanism of evaluating a privatised asset such as the corporate tea sector of Sri Lanka, many issues have arisen between the private and public sectors. Some can argue that the first privatisation venture was a failure, and a new model must be conceptualised for underperforming State assets that are to be privatised. In the author’s view, it could be argued that privatisation is only a process and not the end result of driving efficiency and competitiveness of an industry. In this perspective the key strategic recommendations are as follows:

The Strategic Evaluation Framework (SE Framework) must be incorporated to the working agenda of the Ministry of Plantations. The Strategic Evaluation Framework (SE Framework) as a software programme has been developed by the author and it must be rolled out to the RPCs for data compilation and transfer to the Ministry of Plantations. Thereafter, a review meeting must take place between the RPCs and the State on a quarterly basis.

Industry specific recommendations are as follows:

<table>
<thead>
<tr>
<th>Constraint</th>
<th>Recommendations</th>
<th>Approach</th>
<th>Actors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of production</td>
<td>1. Review the current labour wages and segregate it as fixed wage per month and incorporate a variable component that will be tied up to productivity. 2. Increase R&amp;D spending to the tea industry and develop clones so that a higher yield can be achieved.</td>
<td>Priority: High</td>
<td>Government of Sri Lanka and RPCs.</td>
</tr>
<tr>
<td>Replanting</td>
<td>1. Increase the lease period to 66 years so that two cycles from a bush can be achieved when replanting is been done. 2. A concessionary rate of funding must be provided to stimulate a replanting programme in the RPCs.</td>
<td>Priority: High</td>
<td>Government of Sri Lanka</td>
</tr>
<tr>
<td>Return on Capital Employed (ROCE)</td>
<td>1. Develop a policy that will enable RPCs to diversify their operations. 2. Develop a business model so that an industry standard is set on financials.</td>
<td>Priority: medium</td>
<td>Ministry of Plantations</td>
</tr>
</tbody>
</table>
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Economies world over are predominantly dominated by the service industry and India is not an exception to this phenomenon. The contribution of the service industry to GDP in our country is around 60%. In that tourism industry accounts 5.9% by providing employment to 50 million people directly and indirectly. Today we are in knowledge economy and every organization tries to provide best services in order to achieve its objectives. Competitive advantage and sustainability in the long run of an organization depends upon skill and competitiveness of its workforce. Everything can be copied but it is very difficult copy the talent. To succeed in the companies have select the right people, nurture their talent and retain them for longer period. Hence this article tries to through light on the existing talent management practices adopted by the select hotels of Bidar City of Karnataka State and suggest strategies for effective talent management.

Key words: talent management, talent supply, talent demand, competitiveness of hotel industry, quality service.

Introduction

There was a time when industry meant huge machines and manufacturing. Today it is people economy or knowledge economy. Service sector is contributing nearly 60 percent of the India’s GDP. Earlier we had Ministry of Education now we have Ministry of Human Resource Development. Not just in the corporate even in the government people management has changed. It shows the importance of knowledge or talent management. Today any company or countries’ competitive advantage depends upon the quality of human resource.

Higher the quality of human resource higher will be the productivity and higher the customer satisfaction. Satisfied customers will create good word of mouth and repeat purchase will increase. This will increase the company’s bottom line. Tourism and travel industry is one of the human resource dominant industries.

The quality of the service of any hotel largely depends upon the kind of talent pool or knowledge workers it has. To supply the quality human resource and increase the employability of many people, government and private hotel management institutes are trying hard. But attracting the best talent to join the organization, choosing the right people for the right job, equipping them with required skills, making them to stay longer with organization,
train future leaders for perpetual entity is very important. One of the primary challenges that the hospitality industry continues to face is high levels of turnover. So this article tries to throw light on these issues.

**Problem Statement**

Bidar is called as medieval metropolitan. Recent excavations and development of tourism in the district is attracting national and international tourists. Bidar Utsava and Basava Utsava of Bidar district are attracting lots of tourists. Accommodation facilities are very important components of tourists’ satisfaction. Satisfaction of the visitors depends upon the quality of service. Quality of service is directly proportional to the skills and talent of the human resource of the particular hotel. The role of hotel industry in tourism development is very important. As Bidar has become the international tourist destination service expectation by the visitors will be that of the international standards. Hence this article tries to throw light on the talent management practices adopted by the select hotels of the Bidar city for upgrading themselves to the expectations of international tourists. What kind of recruitment and selection methods these hotels have? What they are doing to attract and nurture the talent? What are the talent retention policies they have? What are the talent management problems these hotels are facing? What future strategies need to be adopted for providing quality service? These questions need to be answered. Hence this article tries to find solutions to these questions.

**Talent Management**

As we have seen talent management is very important for the any organization, specifically for service organizations like hotel industry. The question arises that what is talent management? What are the activities involved in the talent management? To become a talent rich organization what we need to do? Schweyer (2004: 22) has defined talent management as “the sourcing (finding talent); screening (sorting of qualified and unqualified applicants); selection (assessment/testing, interviewing, reference/background checking etc. of applicants); on boarding (offer generation/acceptance); retention (measures to keep the talent that contributes to the success of the organisation); development (training, growth, assignments, etc.); deployment (optimal assignment of staff to projects, lateral opportunities, promotions etc.) and renewal of the workforce, with analyses and planning as the adhesive, overarching ingredient.”

It is very clear that talent management includes all the activities of human resource management. Julia Christensen Hughes, Evelina Rog, says “Talent management is an espoused and enacted commitment to implementing an integrated, strategic and technology enabled approach to human resource management (HRM). This commitment stems in part from the widely shared belief that human resources are the organization's primary source of competitive advantage; an essential asset that is becoming increasingly short supply” (2008). Pooja Vir compares talented employee to superman and says, what kind of talent today’s hospitality industry requires. In one of her article she says “This article is about Superman. Not the man of steel with a dubious sense of fashion, but the one on a hotel company’s payroll, with perfect combination of skill, experience, ambition, loyalty and commitment – the company’s top talent. But do hotel companies know who their Superman is? And, equally important, does he know what is expected of him? HVS Executive Search decided to play Lois Lane and went out in search of the superhero” (2009). According to Pooja Vir popular and pertinent definition of talent management is “effectively putting the right people with the right skills in the right jobs at the right time and retaining them” With these definitions it is learnt that talent management includes the following activities:
Planning for future talent requirement and need analysis
Recruitment and selection of right people
Training and development of the potential talent for future assignments
Regular performance appraisal and identifying skills gap
Proning the talent inventory (Removing low performers)
Retaining the right talent
Providing incentives and Motivating the right people
Building and maintaining appropriate organizational culture
In this article we have tried to know the practice of these activities in select hotels of Bidar city.

Why Talent Management Study of Bidar Hotels?

Talent management helps to provide better quality service. In service industry nothing is there to the guest other than the service of the people. Talented and skilled people serve better than the unskilled and ill-equipped employees. Higher the talent better the competency and service quality. Hence companies want to build competency of the people. Bidar has become one of the most sought after tourism destinations in Karnataka after 2006 first Bidar Utsava. Every year this Utsava is being celebrated to showcase the tourist attractions of Bidar district. Now it is one of the famous heritage destinations of Karnataka. During the Bahamani Sultans and Barid Shahis rule many monuments came up. Notably Bidar Fort, Gawan Madarasa, Rangina Mahala, Gagana Mahal, Tarkash Mahal, Dewane Aam, Dewane Khas, Choubara, Sola Kamba Mosque, Barida Shahi Tombs, Choukandi and Asturu Group of Tombs. Apart from these monuments there are many other holy places, such as Gurunanaka Dev Gurudwar, Narasimha Jharana and Papnash. Since four to five years there is a steady increase in the domestic as well as foreign tourist arrival. In 2011 and 2012 ten Kannada movies and two Hindi movies including the famous Dirty Picture have been shot in Bidar. It shows the importance of monuments and its history. When film makers, foreign as well as domestic tourist arrival increases, of course there will be an increase in the demand for hospitality and tourism infrastructure facilities and quality services. This is creating the need for better talent management in hospitality and tourism industry in order to match the expectations of the tourists. Talent management have many benefits to the employers, according to Horton (2002: 510), the following are the main reasons why employers use competency-based rewards:

• To motivate people and to encourage better performance
• To increase flexibility among the workforce
• To change employee behaviour
• To give employees access to job progression and to allow some form of job progression where no other form of promotion opportunities exists.

Thus, the talent-management practice helps to leverage the strengths of individuals and to explore their full potential in ways that are less likely to occur in the traditional work-based system. Applying the talent management practices appropriately will lead to a number of benefits for companies. Joerres and Turcq (2007: 12), has identified this practice which will lead to the following benefits.

Enable human capital management to be aligned into a single system closely tied to business strategies
Break down silos and force strategic consistency between different HR functional areas, such as recruitment, training and compensation. Allow more appropriate investments in people, based on talent value Increase the scalability and flexibility of business activities
through more effective talent sourcing Facilitate better-informed decisions about changes in people strategies based on greater understanding of potential benefits and risks.

In view of these advantages to be gained when applying talent management practices, it was decided to know the extent to which these practices are being implemented by the select hotels in Bidar city. After the literature review it was found that no study has been done so far on this topic. The main focus of the study is to explore how the hotels of Bidar city are adopting themselves to the growing expectations of tourism industry in the country through talent management.

**RESEARCH METHODOLOGY**

**Sample selection**
As mentioned earlier, the focus of this study was to establish the extent to which talent management practices were being practiced in select hotels of Bidar city. There are 15 hotels approved by the Department of Tourism, Government of Karnataka. Out of these we have chosen six hotels for this study, out of which one is a hotel and restaurant. Before choosing these hotels, researcher had been in the city and stayed in some of these hotels to have the feel of the service personally. Total number of rooms in these hotels all put together is 134, least is 14 and highest is 45. Hence sample hotels fall in all the three categories (small to big) hotels. Questions were asked to the owners/managers based on the availability of the respondents. There are also some drawbacks of using this approach, however; the sample may be biased and thus unrepresentative, and generalising the data beyond the sample may not be possible.

**Survey design**
After the literature review, questionnaire was designed. While preparing the questionnaire all the activities involved in the talent management in hotel industry were included. Questionnaire included both closed ended as well as open ended questions. Ultimate aim of the questionnaire was to gather the information required for the study. Survey was conducted in the month of Jan 2013. As questionnaire has closed ended as well as open ended questions, interview method was adopted.

**Response rate**
Trained research assistant has interviewed the respondent. Out of six hotels selected, we didn’t get the response of one hotel due to busy schedule. Five out of six responses is quite good. Those who responded were very cooperative.

**Findings**
The findings of the study are as follows:

**Category and Number of Rooms:**
To know the kind of hospitality service provided by the hotels, we have asked about category and number of rooms these hotels have. Table 1 shows the compositions of kind of hotel rooms these hotels have. This is very clear from the table, that how different hotels serve different segments. Most of the rooms lie in between Standard Non A/C to Deluxe A/C. and very few rooms in the star category. During the interview it was also noticed that very rarely foreign tourists stay in these hotels. As our problem of the hypotheses says that international tourist expects higher standard of service it may not be influencing on the hotel service
delivery. Main reason is Hyderabad, which is just 140km from Bidar. But majority of domestic tourists stays here. Their expectations are not less than any foreign tourists.

**Cadre and Number of Employees**

To know the talent management practices in the hotels it is very important to know the hierarchy of the organization and their strength. Table 2 shows the details of the hierarchy and number of employees in different hotels.

Except hotel C all hotels have commonly four levels of employees, as hotel C has restaurant service it has Food and Beverage Manager, Chefs and Waiters. All the respondents say that, guests expect cleanliness and room service. Hence they are giving more emphasis on these category employees. Hotel E is using Room Boys for cleaning also.

**Recruitment and Selection**

Recruitment and selection is not so formalised. Only one hotel gives ads in the newspaper and specifies required qualification and skills. Rest recruits either through referral and walk-in. It shows industry is not so formal and professionalised in terms of recruitments and selection. Their recruitment is not so planned and well sought. Four hotels said why they prefer referral for recruitment is such candidates will be more trustworthy.

**Training and Development**

All the respondents said that after Bidar Utsav there is an increase in the tourist arrival and expectation level also. 100% respondents said, guests are expecting more cleanliness and room service. It is very a good thing that these hotels are also giving more emphasis on recruitment of more number of Room Boys and Cleaners. Only hotel B has not given much emphasis on this. More the employees better the service. As all the hotels said, after Bidar Utsav there is an increase in the tourist arrival as well as service expectations, To match the increased expectations three out of five (60%) are giving an on the job training to the existing employees. All the respondents said new recruited employees come with/without skills. Those who come without required skills will be given training. One hotel even sends its employees to Hyderabad for formal training. Two hotels don’t have any training and development strategy.

**Performance Appraisal and Incentive System**

Four out of five (80%) said that they have yearly appraisal system and gives one month salary as bonus to the good performers. One hotel said they don’t have any such things. Two hotels (40%) said they give training and guidance to those who are underperformers. Except salary, employees have no other benefits. No hotel is providing health, education, pension and any other benefits.

**Employee Turnover and Retaining the Right Talent**

Employee turnover is also one of the worrying aspects in these hotels. Three out of five (60%) hotels said majority of employees leave within six months. Those who stay more than six months will be going to stay for two to three years and rest two (40%) said normally employees stay for two to three years. Those hotels have high employee turnover said good salary in other hotels and family concerns are the main reasons. Those two hotels said having low turnover pay higher salary (30% to 40% higher) than those who have high employee turnover. It is very clear that compensation is not adequate. Regarding retaining the employees three (60%) hotels said they don’t have any retention policies, one hotel said they pay advance to the employees, another one said salary on demand. Again here also only those
hotels paying good salary have these retention strategies. Those who pay less salary they don’t have any retention strategy.

Planning for Future Talent Requirement and Career Advancements
All the hotels said that they promote those employees who perform better. They want to have existing people to be continued, because they know the culture and understanding has been developed. They say keeping future requirements in mind, there is need to develop talent internally.

Building and Maintaining Customer Oriented Organizational Culture
Except one (20%) hotel others don’t have formal customer complaints handling mechanism. When we asked them, have you ever received complaints from the guest about employees’ attitude and behaviour? Three (60%) respondents said yes. When we asked, what you have done to reduce complaints? They said that they are improving the service level and employees’ behaviour and attitude through training and guidance. It shows they are concerned about the quality of service and building good relationship with customers.

Suggestions and Conclusion
The primary objective of this study was to determine the extent to which talent management practices were being implemented in the hotel industry in Bidar City of Karnataka State. The overall findings of this study pertaining to talent management were quite positive. These hotels know that, to provide better quality service we need better people, to get better people we need to provide adequate benefits to the employees. As these hotels are not star hotels and professionally managed, the findings clearly show that they don’t have any formal HRM mechanism. Look at the number of rooms and strength of the employees of these hotels (table 1 and 2) may not permit them to go on professional and formal structure. But there is no restriction that to have good people and provide quality service one need not have big size and scale which goes with the quote “small is beautiful”. After analyzing the above findings, the following shortcomings were identified, and they need to be addressed by the hotel industry. It is recommended that the Bidar hotel industry should do the following things:

Become more innovative regarding recruitment strategies, tie up with training centres or do placement activities in hotel management colleges.
Becoming the preferred employer to the employees.
Develop proper career paths for staff to reduce turnover.
Train the managers to become the talent manager of the organisation.
Establish a budget for the compensation and retention of employees.
Less salary and no benefits are the reasons for high turnover so hotels should have better compensation and benefits system.
Improve the education levels and skills of the staff.
Study the national workforce through skills profiling of the labour force and practices of other good hotels.
Develop the culture of teamwork and guest oriented.
Focus more on developing future leaders within the company.
Re-examine the issue of employee compensation, especially when employees work overtime.
Provide benefits other than salary like health, education, PF, etc.
Evaluate the employees’ performance on a regular basis and have proper mechanism for appraisal.
Increase the frequency with which performance appraisals are conducted instead of yearly make it quarterly.

Talent management is thus a critical part of any business’ success; the acquisition and retention of right talent should be an ongoing process and a top priority. Successful organisations know that exceptional business performance is driven by superior talent. Competitors can copy everything easily but they can’t copy the talented employees. In this knowledge economy competitive advantage lies in the kind of talent an organization has. Hence these hotels should give importance to the talent management practices in all level of the organization.

References


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Table 1
Category and Number of Rooms in Different Hotels

<table>
<thead>
<tr>
<th>Sl.no</th>
<th>Category of Rooms</th>
<th>Hotel A</th>
<th>Hotel B</th>
<th>Hotel C</th>
<th>Hotel D</th>
<th>Hotel E</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Standard Non A/C</td>
<td>9</td>
<td>-</td>
<td>-</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>2.</td>
<td>Executive Non A/C</td>
<td>-</td>
<td>10</td>
<td>23</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td>3.</td>
<td>Executive A/C</td>
<td>5</td>
<td>6</td>
<td>-</td>
<td>20</td>
<td>8</td>
</tr>
<tr>
<td>4.</td>
<td>Deluxe A/C</td>
<td>-</td>
<td>-</td>
<td>20</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>5.</td>
<td>Cozy A/C (3 beds)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6.</td>
<td>Luxury Deluxe/ Presidential Suite</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>8</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: compiled from field data
Table 2
Hierarchy and Number of Employees in Different Hotels

<table>
<thead>
<tr>
<th>Sl. no</th>
<th>Category of Rooms</th>
<th>Hotel A</th>
<th>Hotel B</th>
<th>Hotel C</th>
<th>Hotel D</th>
<th>Hotel E</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Manager</td>
<td>3</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>Assistant Manager/ Executive manager</td>
<td>-</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>3.</td>
<td>Housekeeping Manager</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>4.</td>
<td>Food and beverage Manager</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5.</td>
<td>Chefs</td>
<td>-</td>
<td>-</td>
<td>10</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6.</td>
<td>Waiters</td>
<td>-</td>
<td>-</td>
<td>25</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>7.</td>
<td>Room Boys/ Bell boys</td>
<td>4</td>
<td>2</td>
<td>12</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>8.</td>
<td>Cleaning staff</td>
<td>3</td>
<td>-</td>
<td>4</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>9.</td>
<td>Laundry Manager/workers</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: compiled from field data
Entrepreneurship and Entrepreneurial Characteristics and Personality Traits: The Case of Lebanon

Abstract

Research on entrepreneurship has flourished in the past couple of years especially that the rate of international entrepreneurship has increased where more and more of the small enterprises go global and internationalize at different stages, a process that has puzzled researchers. Research in entrepreneurship has encompassed studies on rates of entrepreneurship and the traits that characterize entrepreneurs in order to understand the reasons behind internationalizing and drawing a better picture as to what are the factors behind its successful performance.

Studies revolved around many issues of which are attributable to environment, product factor, management team, owner/founder characteristics, cultural factors… and many others. However, two branches to the study of entrepreneurship could be outlined; one focuses on the cross-national-border behavior of entrepreneurial actors, and another focuses on the cross-national-border comparison of entrepreneurs, their behavior, and the circumstances in which they are imbedded.

The majority of studies on entrepreneurship have concentrated on the western form of entrepreneurship and attempted to generalize the ideal formula of entrepreneur across time and space. However, lately more and more studies are seeking to unearth the effects of culture on the process of internationalization and performance of entrepreneurs.

Literature Review

Many researchers such as Weber (1904) tried to unbolt the meaning and the source of entrepreneurial behavior and has in fact accredited such phenomenon to the “predisposition or propensity toward entrepreneurship in some societies than in others points to the inherent role of culture in the theory of entrepreneurship.” Thus Weber ascribed those differences to cultural and religious factors, and more particularly to whether a culture adopts the protestant work ethic or not which in turn leads to the striving for profit, its reinvestment and accumulation of wealth.

Building on the above theories of Weber, other researchers started to speculate further and thus attribute entrepreneurial behavior to the parental influence in the need for achievement (McClelland [1961]). McClelland envisaged that societies with cultures that emphasize achievement would exhibit greater levels of entrepreneurship than societies that did not. In more recent work, Shane (1992) linked individualism to the level of inventiveness in a
society. Thus the probability for and regularity of entrepreneurship has been shown to be linked to a greater or lesser extent with the occurrence of certain culture specific variables. Similarly, McGrath, et al. [1992] found support for his hypothesis that those entrepreneurs, apart from their nationality or cultural background, share a conventional set of values that are unlike those shared by individuals who have pursued a non-entrepreneurial trajectory. Despite this evidence, it is also reasonable to expect that entrepreneurs, like their managerial counterparts, reflect the dominant values of their national culture. Thus, while they might share some universal traits, others might be more culture specific.

More than that, many other studies were done to distinguish individual characteristics of persons who would dare to start a new business. Some said it is due to an individual decision making personality. Those individuals move confidently in an uncertain future (Mintzberg – 1973)i. Other studies found that intuition is a driver for entrepreneurs. Furthermore, Venkataramani “noted that it is one thing to be aware that entrepreneurial opportunities exist, but a significantly different matter to know how to exploit these opportunities”.

Oviatt (2005)iii, tried to expand this research by having 5 parts related to international entrepreneurship: “1- focuses on opportunities, 2- permits but does not require the formation of new organizations, 3- allows for corporate entrepreneurship, 4- renders unnecessary a debate over how many dimensions entrepreneurial orientations include, 5- highlights entrepreneurial activity across national borders.” While this seemed to be a definition for international entrepreneurship, researchers wanted to find the factors that affect the speed of this process. Oviatt, Shrader and McDougal (2004)iv, found that environment, the industry in which the firm is operating and the characteristics of the entrepreneur himself are the primary factors. Other scholars like Zahra and George (2002v), see the organization’s factors the prime factors.

In addition to the result of previous studies, many researchers found that “Rationality” is an important behavior for entrepreneurs, especially the rationality in finding the best way to increase the profit of the company. [Thaler (2000)vi] remarked that successful entrepreneurs don’t limit themselves to the present, they exists in their time but always think about the future. They don’t expect the return of their action today. Thus to determine whether the entrepreneurial traits profile is pertinent to other cultural background or are bounded by ethnocentric bias, researchers joined hands on the task to measure the degree where entrepreneurial characteristics are culturally bound or are common among cultures.

Thomas and Mullervii in their paper on “a case for comparative entrepreneurship” identified four entrepreneurial characteristics: innovation, risk propensity, locus of control, and energy level, and assumed that those characteristics are found in other cultures settings. With the U.S. model representing the 'ideal' entrepreneur profile, systematic variation in the frequency of entrepreneurial traits was studied as cultural distance from the U.S. increased. If indeed such a variation was observed, it would strengthen the argument that the definition of entrepreneurs was culturally bound. Innovation was the common characteristic among the different cultures studied for it is thought to be the reason behind starting a small company, however the rest are more defining characteristic that may be more culturally bound.

Another major theme that appeared to be discussed heavily was “Autonomy”. This topic was studied since 1990 with Blais and Toulouseviii in their paper “National, regional or world patterns of entrepreneurial motivation?” and till 2004 with a paper done by Wilson et alix. In
all those studies, researchers discovered that independence is the goal business men want to achieve. For example, Blais and Toulouse did a study related to 14 countries. They found that that the main reasons to start a business are the control the time, work with people the business man chooses, be his own boss and lead others.

Although personal characteristics are important to establishing businesses, but some researchers went to the ultimate point. They studied the effect of the country of birth of entrepreneurs to see its effect. One of those studies is the one named “Corporate Entrepreneurs And Privatized Firms in Russia, Ukraine and Belarus”. This paper aimed to show the changes that occurred to the entrepreneurs after the regime changed in 3 countries: Russia, Ukraine and Belarus from being part of the USSR to being independent countries. “Major surveys by international agencies find that the creation of de novo businesses in the former USSR continues to lag behind the rate of new business creation in other former Communist countries in Central Europe, with the number of officially registered smaller businesses in Russia remaining at only around 1 million in 1997 (EBRD 1997)x.” Hisrich and Grachevxi in their paper “The Russian Entrepreneur” done in 1993 found that Russian entrepreneurs were underdeveloped during the period until the late 1800. This was caused by the concentration of the decisions and planning in ministries. This didn’t make identifying good entrepreneurs outside those governmental entities impossible. When the reform process began, skilled managers were almost in-existing. (Puffer 1994)xvi. Studies of Russian entrepreneurs’ characteristics showed that “they possesses significantly lower internal locus of control scores than entrepreneurs elsewhere". (Kaufman et al. 1995)xvii. Another paper showed that those entrepreneurs had excellent technical knowledge and received good raining, they had little experience in non-technical issues like marketing and strategic planning (Linz 1997xviii; Filatochev et al. 1996xix).

For those entrepreneurs who lagged behind the techniques of managing firms due to an external factor, is there a way to educate them or even train them to be up to date with the best business men in the world?

Many scholars have shown interest in this topic to be able to answer many questions that intrigued the world about that small number of persons who earn and run billion of dollars: Does training affect the behavior of entrepreneurs? Is a born quality or does opportunities recognizing excellence shape those businesses?

For instance, Fietxvi (2000a, p. 1) noticed that: “There is an ongoing debate in the entrepreneurship academy about whether we can actually teach students to be entrepreneurs”. He detected that the solution to this is related to assumptions about the field, and what is taught. Teaching is not very valuable if it is not accompanied by individual research. “We weaken our teaching effectiveness when we try to teach the answers to questions that have not been addressed in the literature from a theoretical stream of research” (Fiet, 2000a).

Other, including Gorman et al.xvii (1997) found that “underlying assumption for using audience segmentation was that educational objectives, subject matter and pedagogical approach might be expected to vary depending on the nature of the target audience”. Other researchers such as McMullan and Longxviii (1987), Monroyxix (1995), O’Gorman and Cunninghamxx (1997) identified that each individual needs a different level of training. This need vary according to the development level such as awareness, growth or maturity. Indeed, Gorman et al. (1997) call for a “more in-depth assessment of the matching process between what are perceived to be entrepreneurial characteristics and the attempt of educational
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Institutions to enhance them”. Jamiesonxxi (1984) suggested framework made of 3 different categories to educate entrepreneurs. The 3 categories are: education about enterprise, education for enterprise and education in enterprise.

To understand the content of the entrepreneurship programs, many researches were conducted. Hillsxxii (1988), for example, identified that those programs have two important objectives: to expose the process of starting and managing a business and to show small businesses as an option for student to have a career.

According to Garavan and O’Cinne’idexxiii (1994), among the most commonly cited aims of entrepreneurship programs include: to stimulate entrepreneurial skills and to create attitudes towards change. Hisrich and Peters (1998) examined those programs from participants’ perception. The features that participants believed should be included were more practical and aimed to improve chances of success. Knowing the essentials of marketing, entrepreneurship, business planning, management and financial management, together with obtaining resources, were also considered essential. More than that, Hisrich and Peters (1998) divided the skills required by entrepreneurs into 3 categories: Technical skills (written and oral communication, technical management and organizing skills), Business management skills (planning, decision-making, marketing and accounting skills) and Personal entrepreneurial skills (inner control, innovation, risk taking and innovation). Interestingly, Timmons et al.xxiv (1987) suggest that what can be learned at such programs is limited, whereas one’s experience is endless.

Nonetheless McDougall, Shane, and Oviatt in their paperxxv on “international new venture founder” propose that any theory of how INVs are formed must address three questions.
1. Who are the founders of INVs?
2. Why do they choose to compete internationally?
3. What form do their activities take?

Yet, a single, very early study by Vesper and Vorhiesxxvi prefigured McDougall, Shane and Oviatt’s. Vesper and Vorhies conducted in-depth interviews with ten entrepreneurs who had founded INVs. Three themes emerged from these interviews.

“My founding entrepreneur's networks: Almost all the entrepreneurs attributed their business idea to information they had obtained from friends or business contacts…
2. The founding entrepreneur's prior international business experience: Exporting requires selling something in a foreign. Prior job experience was generally considered to be the best source of this expertise; with schooling second…
3. The founding entrepreneur's foreign language ability: The entrepreneurs generally agreed that knowledge of a foreign language was not at all important.” (Vesper and Vorhies).

Burt defined the above as an entrepreneur’s social capital of which in turn brings three processes into the picture: (1) The entrepreneurs' personal financial capital, (2) the entrepreneurs' individual human resource capital, and (3) the entrepreneurs' social capital-the ability to access needed resources through social networks.

“Entrepreneurial activity is embedded in social networks and is affected by the nature of the individual entrepreneur's dyadic relationships. From this perspective, entrepreneurial networks are potentially seen as opportunity structures laden with information and other resources. These networks create linkages between intending entrepreneurs, market
opportunities, and various kinds of resources. They can be described in terms of mutual expectations...They provide access to valuable information not otherwise available to the entrepreneur. They give the entrepreneur an entree to suppliers, customers, technical and professional advisors, creditors and investors. They lower buyers' perceived risk, improve suppliers' credibility, and help both parties gain market knowledge. They support buying and selling companies' proactive responses to new opportunities and threats and can even spur technological development. They are a potential source of members for new venture teams.

Thus Founders of INVs are more likely to have had contacts outside the U.S. at the time of founding than their DNV counterparts. Those connections are divided into two: weak and strong ties.”

Strong ties are often familial or friendship relations, whereas weak ties are more prone to be exclusively business or customer contacts. Once an entrepreneur's most direct social network ties are strong, information flows promptly, and each person tends to know what the other knows. However, fresh information on new ideas and business opportunities tends to come from separate clusters that are connected to the primary social network by weak ties. Through these weak ties, an entrepreneur can gain information and control benefits that can lead to sustainable competitive advantage. As a result, Founders of INVs are more likely to have weak ties outside the United States at the time of founding than their DNV counterparts.

Another study that has delved into the study of the effects of personal factors on internationalization is a paper by Edelman, Greene, Moldova and Brush “Internationalization of small firms”. In this article they examine the differences in personal factors between internationalized and non-internationalized small firms. The relative importance of four dimensions of human capital: international business skills, international orientation, perceptions of the environment, and demographic characteristics, were compared and analyzed based on the industrial technology sector (i.e. primary, secondary and tertiary). Results show that neither traditional demographic measures nor international orientation distinguishes between internationalized and non-internationalized firms, but that environmental perceptions and self assessed strengths in international business skills are significant. The combination of personal factors varies significantly by technology sector, with the primary and tertiary sectors showing minimal differences except in perceptions of the environment. International business skills, international orientation and perceptions of the environment differ for small firms in the secondary sector.

Yet other researchers sought to specify which personal factors motivated internationalization. Their results clearly show that ‘personal factors matter’ with respect to small firm internationalization, but, more importantly, ‘some personal factors matter more than others do’. This finding defies existing empirical literature, which tends to cluster human capital dimensions together. In particular the findings indicate that managerial skills and environmental perceptions are the most important dimensions of human capital. Owners/founders who had international work experience, or established personal networks and relationships abroad possessed the skills necessary to conduct international business arrangements. Consistent with this, owners/founders or managers who have more optimistic perceptions of the international environment will also be more likely to internationalize their own small businesses.

These findings are coherent with both internationalization process theory and international entrepreneurship. Internationalization process theory posits that internationalization is a
sequential process in which firms follow a path of internationalization towards markets of lower psychic distance (Johanson and Vahlne\textsuperscript{exviii}, 1977, 1990). International entrepreneurship argues that ‘the founders of international new ventures are more “alert” to the possibilities of combining resources from different national markets because of the competencies they have developed from their earlier activities’ (McDougall et al., 1994: 475)\textsuperscript{xxix}. Our findings indicate that owners/founders are likely to draw on their international experience, skills, or overall competencies when internationalizing their own firms.

Therefore, ‘for managers with these sets of skills and positive environmental perceptions’, the process of internationalization has ‘less uncertainty’, and hence is more likely to be pursued than it is for managers without comparable skills or perceptions.

Contrary to both export development and international entrepreneurship research that suggest that international orientation will distinguish among managers who choose or not to internationalize, international orientation did not vary between internationalized and non-internationalized firms since Media attention to opening of new markets have forced every manager to be more internationally oriented.

Other researchers studies entrepreneurial characteristics through a different lens and thus widened the scope of those traits that pertain to successful international entrepreneurs. More specifically they differentiated between different processes of internationalization i.e. late startups and born global and sought to attribute different entrepreneurial characteristics to different form of small business. Yet although those studies proved to be fruitful, the factor of culture was still an element of curiosity and ambiguity in finding was yet speculated to be caused by culturally bound reasons.

As reviewed in the previous section, current research programs focused on INVs and born-global reveal a very different picture from the gradualist approach. According to several studies in this field (Rennie, 1993; McDougall et al., 1994; Oviatt and McDougall, 1995, 1997; Knight\textsuperscript{xxx} and Cavusgil, 1996; Madsen and Servais, 1997, Sharma and Blomstermo, 2003; Andersson and Wictor, 2003, and Chetty and Campbell-Hunt, 2004, among others), born globals and INVs are entrepreneurial firms whose management seem to perceive the entire world as its marketplace from the outset. They neither limit themselves to a single country nor see foreign markets as purely complementary to the domestic one. INVs and born-global are more niche-focused that usually apply cutting edge technology to develop more highly specialized products. These firms also make greater use of both personal and business networks to achieve rapid global outreach.

These studies alone do not provide a definitive answer to the question: Is the American entrepreneurial archetype universal? Much more research is required. Case studies that permit the induction of the entrepreneurial profile among various societies are necessary for the development of typologies of international entrepreneurs that can parsimoniously capture similarities and differences.

\textit{Entrepreneurship in the Middle East and Lebanon}

In the face of growing competition between countries, organizations and individuals a new way of thinking was developed worldwide, this culture is known as Entrepreneurship. Entrepreneurship is a function that deals with the exploitation of opportunities vacant within a market. Such exploitation is most commonly associated with the management and/or combination of productive inputs. Entrepreneurs usually are regarded to stand risk while following opportunities, and often are associated with imaginative and inventive actions. In
Entrepreneurship and Entrepreneurial Characteristics and Personality Traits: The Case of Lebanon

addition, entrepreneurs carry out a managerial role in their activities. The Middle East is among regions that were affected by this trend due to the economic growth that was observed after the oil exploitation in the Gulf countries such as KSA, UAE, Kuwait… and other ME countries such as Lebanon that has depended on the services sector.

Entrepreneurship activity in Lebanon is high compared to that of other countries in the Middle-East. Since the civil war there have been efforts by the government to aid small and medium sized businesses and individuals wanting to start up businesses and to provide micro-entrepreneurs (or the economically active poor) with financial stability. There are also initiatives being taken to increase the institutional capacity of private commercial banks to deliver microfinance projects in the Middle-East. Moreover, the Lebanon Integrated SME was planned to cater to the needs of small to medium sized enterprises through the assistance of business development centers.

In Lebanon, three types of entrepreneurship can exist:

The Local: Those constitute the majority of the Lebanese entrepreneurs. Staying local was a result of financial constraints and personal satisfaction.

The International: are firms that have a minimum of 25% (Karra, 2004) of their sales in international markets. They benefit from economies of scale. Those are abundant in the Lebanese industry due to several reasons:
Since the Political situation in Lebanon and the instability it causes on the long run, Lebanese Entrepreneurs have focused on international businesses to disperse the risk and spread it over many countries, resulting in a demand curve that is not much fluctuating.
Economical recession that pushes educated Lebanese to seek opportunities abroad.
Long history of traveling and establishing businesses abroad that deepen knowledge of international markets.

Satisfaction of the wants and needs of the Lebanese community abroad by offering products that matches their preferences that are not matched by local providers.

The Global: is a firm that has achieved a high level of sales from foreign markets and has made considerable foreign commitments in terms of sales efforts and other investments. Those are minority in the Lebanese industry and are limited to specific fields, mainly the computer programming and engineering firms. Going global is a result of many factors:
The need of a booming economy.
Limited knowledge of Lebanese market.
The search for more developed and larger firms as customers.
The disadvantages that the Lebanese situation offers.

Previously conducted studies have found individuals are disposed to launch new ventures based on a mixture of personal and background factors. A motivation to act, fueled by dissatisfaction with a work situation, catalyzed by an apparent opportunity, has been the introduction of many start-ups. In a broad sense, all entrepreneurs have made the decision to put down paid employment for self-employment.

There are eight “cornerstones” of business development which are: the business idea, the product, the market, the organization, core group expertise, core group commitment, customer relations and other relations.
Furthermore, based on interviews with expert entrepreneurs, the following particular sequence in which to develop the cornerstones was noticed:
Writing a business plan.
Gathering information about customers.
Talking to customers.
Making financial projections.
Establishing a legal entity (register a sole proprietorship, partnership or Limited Liability Company).
Obtaining the needed permits and licenses.
Securing intellectual properties.
Seeking financing.
Initiating marketing.
Acquiring inputs.

Beside these cornerstones of successful business development it’s essential to emphasize the correlation between the entrepreneur (s) and the business idea; in other words, from a psychological perspective, the fit between the individual (personality and traits) and the task (type of venture). Although they share the sole characteristic of venture founding, there are prospective differences among entrepreneurs. Elucidating these differences is the main objective of this research topic which aims to address a better understanding for the relationship between the entrepreneur’s characteristics and the nature of enterprise.

**Methodology**

Personality is often loosely defined in terms of regularities in action, feelings and thoughts that are characteristics of the individual\(^{\text{xxxiii}}\). In other words, there should be set of characteristics or traits that are stable across situation and time.

\textit{H1}: There is a strong correlation between the characteristics of an entrepreneur and the type of enterprise.

This hypothesis highlights some of the individual characteristics that are supposedly related to entrepreneurs and the intention to pursue specific entrepreneurial career. Therefore, the following are some of the traits that are often seen as positive characteristics of entrepreneurs:

- Risk-taking propensity
- Need for achievement
- Locus of control
- Over-optimism
- Desire for autonomy
- Persistence in overcoming failures
- Ability to cooperate
- Understanding the environment and reacting efficiently

\textit{H2}: The personality of the entrepreneur reflects the performance of the firm and the way it is organized.

This second hypothesis lays on the assumption that the way the firm is organized and performed is reflected by the personality of the entrepreneur. Hence, two categories are identified:

- The craftsman-entrepreneur.
- The opportunistic-entrepreneur.

It is implicitly perceived that the craftsman type has lower education, favors manual work and desires stable income to support the family. On the other hand, the opportunist type has a higher education and is more prone to be the leader and expand the business. Whilst defining
performance is beyond the scope of this proposed hypothesis, it is enough to remind the reader that the term *Performance* is associated with the survival of the firm, firm growth and firm profitability.

**Data Collection**

Studies of entrepreneurship have varied between two schools of thought: one is based on the trait model and the other on contingency thinking. The study fits in the trait Model. This cross-sectional study focuses on the characteristics and types of 12 Lebanese firms. These typical characteristics comprise the ability to take risk, innovativeness, knowledge of how the market functions, manufacturing know-how, the ability to grasp profitable opportunities, the ability to correct errors effectively, marketing skills, business management skills and the ability to co-operate. Data was collected through open-ended interviews. The entrepreneurs were chosen because they are clearly the most knowledgeable sources of information. The interviews have been personally conducted and have lasted for an hour on average. They were guided by two broad statements as follows: (a) portrayal of personal characteristics and traits, and (b) description of the company’s structure and performance. The interviews were recorded with the aid of an audio tape recorder and supplemented by handwritten notes made by the researcher.

So as we mentioned before the sample is based on 12 local, international and global Lebanese firms. The local and the international entrepreneurs are both in the food industry; however, the global entrepreneurs belong to the programming and contracting fields.

**Crepaway**: the company debuted in 1984, when a young boy who was quite an entrepreneur, decided that his mother’s homemade crepes were a product to market. Since that time, Crepaway has grown to become one of the most beloved restaurants in Lebanon. In 2002, Crepaway took its concept abroad and opened the first regional branch in Cairo. This was followed by branches in KSA and Quatar.

**Abdul Rahman Hallab and sons**: In 1881, the Lebanese city of Tripoli has witnessed the rising of a new dawn in the world of traditional oriental sweets. The mission of Abdul Rahman Hallab & Sons consists of producing a high quality oriental and occidental Sweets to satisfy its customers in Lebanon and worldwide.

**Zaatar w Zeit**: Specialized in the Arabic pastries; Zaatar W Zeit is a trendy and casual restaurant for the traditional Lebanese treat. Established in 1999 with the aim of specializing in one product and making it available around the clock. This Restaurant is now operating in Kuwait and UAE.

**Patchi**: Patchi was founded by Nizar Choucair in 1974, in Lebanon. In 1976, they expended and launched their first store outside Lebanon in Jeddah. Patchi is characterized by being the Makers of high quality chocolate not only in Lebanon but also in the middle east region.

**Wooden Bakery**: Wooden Bakery was founded in 1969 in Jal El Dib, Lebanon by Edward Bou Habib and the original premises are still going strong. In brief, Wooden Bakery is founded on having unique know-how as well as mastery and experience in the baking industry. As a result of the good reputation, Wooden Bakery is now operating successfully in several gulf countries.
Khayratouna: is a local firm that sells all type of packaged foods. It has its market especially in the north area of the Lebanese market. It has some plan to expand its sales to the whole Lebanese market during the coming 2 years.

Saifan Oils: The Saifan establishment is a family owned company that has been established since 1939 in the Koura Valley of North Lebanon in an area that is very well known for its excellent climate, soil and 600 years old fruity olive trees. It sells a variety of olive products in the Lebanese market.

Arak Touma: Arak Touma is a family-owned business managed by Dr Walid Touma and uncles. This firm is typically engaged in the production of alcoholic beverages (mainly “ARAK”). Hence, we should mention that choosing Dr Touma as one of the interviewee is not just because he’s one of the partners in Arak Touma enterprise but because his vast knowledge and experience in the entrepreneurial career (his interest in being one of the prominent entrepreneur was not limited to the Lebanese market; yet, he went much further to compete in the foreign markets such as the US).

Sanyour: Sanyour is considered to be one of the oldest restaurants in the city of Beirut. With its three branches, Sanyour is trying to uphold the Lebanese tradition in offering customers the finest quality foods and services available.

Fayad Oil: was founded in the late seventies to sell virgin olive oil of the north area to some big firms in the Lebanese market interested in oil of good quality. It has a big production due to the large quantity of olive being farmed in this area.

LibancoSource: is a pioneer in global offshore development and IT outsourcing in Lebanon. Our efforts have spanned multiple industries and markets including sales force automation, custom applications, ERP development, and web development in the retail, healthcare, and financial sectors.

Damaa Construction: Established in 2003, Damaa Construction is a contracting firm which was founded by Mr. Wissam Damaa and some of the Lebanese civil, mechanical and electrical engineers. This global company has succeeded to penetrate the gulf market despite the presence of huge competitors.

Findings

Researchers have tended to explore the relationships and dynamics between entrepreneurship and other sociological, cultural and environmental forces neglecting the fundamental impact of personality traits on the foundation and type of the new ventures. Hence, the diagrams below summarize the outcomes of the conducted study that were collected through the semi-structured interviews.

Personality traits are constructs to explain regularities in people’s behavior, and help to explain why different people react differently to the same situation (Cooper, 1998). Terms such as “outgoing”, “bossy”, and “hardworking” are often used by all of us to portray certain character or behavior, and researchers have concluded that these attributes of the individual huddle together to shape a small number of broad personality dimensions. These aspects of
personality have been found to be stable over time, and have been related to wide array of behaviors both in the workplace and in other environments (such as sport and social connections).

**Table 1:**

<table>
<thead>
<tr>
<th>Characteristics of an Entrepreneur</th>
<th>International Enterprises</th>
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<tbody>
<tr>
<td></td>
<td>Crepaway</td>
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<tr>
<td>Risk-taking propensity</td>
<td>High</td>
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<tr>
<td>Need for achievement</td>
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<tr>
<td>Locus of control</td>
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<td>Over-optimism</td>
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<td>Desire for autonomy</td>
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<td>Motivation</td>
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<td>Persistence in overcoming failures</td>
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<td>Ability to cooperate</td>
<td>Average</td>
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<tr>
<td>Understanding the environment and reacting efficiently</td>
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**Personality Of an Entrepreneur**

- **Craftsman-entrepreneur**: √
- **Opportunistic-entrepreneur**: √ √ √ √
### Table 2:

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<thead>
<tr>
<th>Characteristics of an Entrepreneur</th>
<th>Khayratouna</th>
<th>Saifan Oil</th>
<th>Arak Touma</th>
<th>Fayad Oil</th>
<th>Sanyour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-taking propensity</td>
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<td>Persistence in overcoming Failures</td>
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<th>craftsman-entrepreneur</th>
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### Table 3:

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<th>Characteristics of an Entrepreneur</th>
<th>Global Enterprises</th>
<th>LibancoSource</th>
<th>Damaa Construction</th>
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<tr>
<td>Risk-taking propensity</td>
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Therefore my findings section will be focusing on nine broad dimensions of personalities which are the main concern for my research. Most of the economic theories assume that among the major roles of the entrepreneur is the role of economic risk taker or risk bearer of the economic system. Hence, is it true to presume that the entrepreneurs are more attracted to risk taking than others?

Based on the data collected from the conducted interview the answer is clearly no. There are obviously significant differences between entrepreneurs themselves when assessing general risk propensity. For instance, when measuring the lenience for ambiguity, which is a concept that is related to risk taking, Global and International entrepreneurs have shown somehow greater degree of tolerance to vagueness and risk than Local entrepreneur.

Low tolerance usually generates stress and unpleasantness in complex situations; however, people with high tolerance find such circumstances desirable and challenging. In other word, Mr. Wissam Damaa (Damaa Construction’s owner) and Mr. Peter Chalouhi (General Owner for LibancoSource), both Being global entrepreneurs, have proven strong ability in managing risk, contrary to most of the local entrepreneurs who prefer well understood situations.

According to the data collected from our chosen sample we can assume that risk taking was dependent on several factors such as age, motivation, business experience, number of years in business and education. As an example, Wooden Bakery’s owner was able to give up his job in Canada and take the risk of establishing an enterprise in Lebanon because he has had the confidence that he will succeed. In brief, most of the interviewed Lebanese entrepreneurs have accepted the risk of launching new ventures if it was believed that the venture will minimize long-term risks.

An important trait in creation of new firms is Motivation. This topic is very broad due to the personal characteristics of each person and what may motivate one many not have an effect on other. Reasons such as a bad workplace, being unemployed, inadequate salary, or even a work schedule that is stiff can push ambitious persons to do their enterprise. More than that, factors such as being self-employed and not being obliged to work for others, wealth or even having an idea that didn’t seem to have an existing market are pulling entrepreneurs to start their business.

Being self-employed is seemed to be the most determinant factor, because even if sometimes people don’t like to be working for others, but they don’t have the enough resources or management qualities to have their own company. For this reason, usually people ask if entrepreneurship is what they want and if it is possible for them. When the answer to both questions is yes, the entrepreneurs will most likely start his business.

When doing our interviews, we found that new ideas development is an important motivator but in most cases the need for self achievement is a deeper factor. In the case of local entrepreneurs, the need to support the family is a major basis. In most cases, those businesses are inherited from the father or even grand father and to keep the family heritage, the entrepreneurs run them.

Some found that this was their perfect job; others wished they could get rid of it. For example, in the case of Khayratouna, the father established the company and the sons liked working in this industry. Whereas in the case of Fayyad oil, the father left the company to a
son that had other dreams, but due to the family relations he continued to run the family business.

Other than the family support, the availability of the resources is a major factor. Some had the money and wanted to invest it, other had the raw material needed for the establishment of the enterprise.

In contrary to the local entrepreneurs and during our study, we found that for International entrepreneurs the most important motivation is the need for achievement. This characterize individuals in situations where they should be responsible, where they should take moderate risk, or where knowledge of decisions’ result or even anticipation of possibilities is necessary. Satisfaction rather than money is the main driver of those entrepreneurs. The owner of Crepaway said that enough money was achieved in the local market, but it is not the issue anymore; having a well known brand name in newer countries and taking some risks to achieve it became a new motivation for him.

Another important factor for going international appeared during our meeting with Mr Adnan Abdel Rahman. He said that international branches were not in their plans until 2005, when the Lebanese market started to have political and safety issues that made the whole economy suffers. Sales declined in all industries because Lebanese were afraid to spend money on luxurious items and the number of tourists tremendously declined. Abdel Rahman Hallab yearly reports showed this decline and because Mr Adnan is a good entrepreneur who is able to understand the environment and to react efficiently, having backup resources in international markets seemed the only solutions. While the Situation of the Lebanese market was the main reason for Mr. Adnan Hallab to go international, Zaatar w Zeit had other reason: the increasing number of Lebanese immigrants in foreign countries and their preference for the Lebanese food and for the Lebanese way of cooking. This was another major reaction to the changing environment. Reasons change, the aim and results are the same: Go international.

An additional factor that seemed to be very influencing is the need for independence or in other words the “Desire for Autonomy”. Usually people like to lead and not to be led; they prefer to control their work, time and even people they work with. This can be achieved through creating new business. Those individuals want to run from having someone controlling them and like to accommodate everything around them to the way they want it. Some entrepreneurs like autonomy to be responsible, decide the strategy to follow and the methods to execute.

Mr. Chalouhy is one of those entrepreneurs who have pursued his MBA degree because he likes to take managerial decisions and to be his own boss and having an enterprise seemed to be the best way to do it.

Other ones like autonomy for the sake of having the absolute freedom; this is experienced with Mr. Damaa who always wanted to be the director of his own fate. He does not want anyone to control any aspect of his life: he manages his time, he fulfills his tasks… More than that, earning own income was among the top listed motives for searching for autonomy. Although risks are high but earnings are high too.

Another tracked individual characteristic was “Locus of Control”. The concept of locus of control can be explained as how individuals’ perception of control affects their behavior. In
other words, this idea examines whether a potential end or goal can be attained through one’s actions or follows from luck or other uncontrolled external factors. Thus, locus of control is regarded as one determinant of the expectancy of success.

Back to our conducted study, it was evident in many situations that Local Entrepreneurs’ achievement was the result of luck and external factors such as the economical and political situation in Lebanon (khayratouna and Saifan Oil). Conversely, on the other hand, both international and global entrepreneurs believe that their achievement for selected goals was dependent on their own behaviors and decisions; hence, they do believe in internal control. To date, according to my results and other empirical results we can assume a low to moderate correlation between internal control and entrepreneurs.

**Over-optimism** is implicitly linked to locus of control because both of them are related to anticipation of success. Accordingly, I have found that the majority of the Lebanese entrepreneurs were overoptimistic about their success rate. Moreover, it was clear that most of the individuals, regardless of the type of business, have tendency to believe that a risk is larger for others than for themselves.

**Persistence in overcoming failures** is not an easy issue. It requires the ability to adopt a multi-disciplinary role, a broad understanding for the business environment and unusual problem solving style. For Mr. Touma, entrepreneurs must persist through the frustration and obstacles that might inevitably occur during the creation of new venture. For him (the owner of Arak Touma’s venture), due to the durable economical instability in Lebanon, persistence is the key success factor for the creation and operation of new business ventures. More importantly, it was noticed that most of the international and global entrepreneurs tend to see failure as a learning experience or a setback from which the idea can be improved and this a major difference between enterprises and other business entities.

Finally, the **ability to cooperate** was a common characteristic for the majority of the Lebanese entrepreneurs. This ability for cooperation doesn’t only consist of the relationship between the entrepreneur and his business staff, it also cover his social relationships with family members and friends. Hence, in my conducted interviews, each entrepreneur has focused on certain type or level of cooperation with people.

At LibacoSource, where multi-skilled employees are working with advanced technologies, **Flexibility** was the dominant culture between the entrepreneur and his employees. The big size of this enterprise has facilitated the rapid flexible response to changing market demand. In fact, the diverse nature of employee has facilitated the rapid response to market changes while advanced technology has made such flexible production possible.

However, at Damaa Construction, different atmosphere between the owner and his employees was prevailing. They had kind of **Fraternalism** where there is shared sense skill and effort, the owner tends to work alongside employees. In addition to this, there is a reliance on negotiation between the entrepreneur and employee with a realization that all are needed for the firm to survive; consequently the incident of mutual reliance and close working engenders a form of partnership.

**Collectivism** was also one of the clearly recognized attributes in most of the Lebanese Enterprises and specifically for the local ones. Basically, as I’ve previously mentioned, the majority of the local enterprises are family owned businesses; so, the members of these local
businesses perceive themselves as interdependent members of an “in-group”, a collection of people perceived as sharing the same fate, so they tend to act cooperatively in their group’s interest. This ethnicity was mostly concluded from the conducted dialogues with the local entrepreneurs (Khayratouna, Saifan oil) and some the international ones such as Abdul Rahman Hallab and Sons where Mr. Adnan Hallab has insisted on the idea that collectivism among the family members was the main reason for prosperity and survival.

Concerning their social and family life, it seems that a large number of local, international and global entrepreneurs have sacrificed their personal life for the success of their businesses. It was evident that the majority of time is dedicated to work. Few time to be spent with family and limited friendships. Moving From the characteristics of the entrepreneurs to the Personality of the entrepreneur, Lebanese entrepreneurs can be classified as being either craftsman-entrepreneur or opportunistic-entrepreneur or even both.

Interviews with the chosen sample of the Lebanese entrepreneurs have shown high correlation between craftsman-entrepreneur and experience from one side and opportunistic-entrepreneur and education from the other side. Four among the five chosen local enterprises are family-businesses. Thus, we can assume that most of the family-firms are businesses where family members do not have high education level or formal role in the business but are involved in certain tasks in order to provide support of some kind. For Mr. George, the owner of the local food company, “Khayratouna is a family-firm that has passed from one generation to the other. This firm is the main source of living for several members of the family who are all involved in owning and managing this business.”

Knowing that most of the craftsman type have lower education and more tights to family, Dr Touma has emphasizes the role that the experience of the key founder plays in the business start-up since, in his opinion, the Lebanese entrepreneur has the responsibility of leading the organization in highly-competitive market-place. Another important point that was noticed in the conversations with the local entrepreneurs is the high similarity in education and work involvement of family members. When asking some the entrepreneurs about the need for children to be involved in other business fields or type of education. The answer was “as long as the business is generating enough profit, there’s no need for the new generation to choose superfluous academic education or to work in different kind of business”.

On the contrary, high affiliation was observed between education and opportunistic-entrepreneur. However, when the levels of education of technical entrepreneurs are compared with those held by non-technical entrepreneurs the level of accomplishment in the second group tends to be more modest. For the founder (LibancoSource programming company) education is a high necessity in order to maintain competitiveness in the computer and technology field. For him, new-technology based sectors are highly competitive and a firm’s competitive advantage is usually based upon the knowledge and expertise of the founder. In short, the education system seems to play a major role in mobilizing entrepreneurial capital. As Dr. Touma has mentioned, taking a degree or further education qualification means moving away from the routine type of businesses to leadership and business expansion.

Conclusion

Articles relating to entrepreneurship can be viewed as stemming from three main concepts: (1) An economic approach that stresses the role of entrepreneurs in economic development;
A social-environment approach that stresses the influence of the social and cultural environment on entrepreneurs;
(3) And finally, a psychological approach that focuses on the personality traits of entrepreneurs (Deakins, 1999).

While entrepreneurship is one of the most studied topics in economics and business, findings have been mixed regarding the psychology of entrepreneurs. It has even been argued that the trait approach has failed in the case of entrepreneurs (Gartner, 1988) and that the entrepreneurial personality is nothing but a myth (Shaver, 1995). Part of the problem may be different personality types of entrepreneurs (Miner, 1997, 2000) and different entrepreneurial subgroups such as opportunistic vs. craftsmen entrepreneurs (Cooper, 1973) or opportunity vs. necessity entrepreneurs (Reynolds et al., 2003).

The research findings assume that entrepreneurs have distinct traits. Therefore, this study has examined the importance of nine of the mostly mentioned characteristics by researchers which are: Risk-taking propensity, Need for achievement, Locus of control, Over-optimism, Desire for autonomy, Motivation, Persistence in overcoming Failures, Ability to cooperate, Understanding the environment and reacting efficiently. Therefore, there seems to be direct relationship between risk-taking propensity and entrepreneurship though Global and International entrepreneurs have shown somehow greater degree of tolerance to risk than Local entrepreneur. Moreover, being self-employed and need for achievement seems to be the most determinant factors for motivation which is highly associated with the majority of entrepreneurs.

Additionally, persistence in overcoming failures and the ability to understand the business environment and reacting efficiently come out to be more explicit to global and international entrepreneurs. On the other hand, it seems that there is an inverse relationship between Locus of control, over-optimism and ability to cooperate and entrepreneurship. These traits appear to have insignificant effect on the type of Lebanon enterprise, (whether it is local, international or global).

Furthermore, in addition to facilitating greater understanding as to why some people are motivated to start their own business (When others in the same situation are not), this paper has also investigated the hypothesis that the personality (craftsmen/opportunistic) of the entrepreneur has a significant impact on the performance of the enterprise. The conducted open-ended interviews have shown strong relationship between craftsman-entrepreneur (mostly local) and experience from one side and opportunistic-entrepreneur (mostly international and global) and education from the other side.

Several limitations for this research paper can be outlined. However, the previously mentioned findings provide a useful basis from which to base directional hypothesis in future research. Compared to the big size of the Lebanese economy, the chosen sample is very small which limit the confidence that can be placed in the findings. Yet this limited sample is due to the inadequate period of time that was dedicated for the interviews in addition to the hard situation that Lebanon is passing through which has pushed lots of the interviewees to either cancel or postpone the previously scheduled meetings.

Moreover, this study can be criticized for the use of inaccurate measures which may have unclear and unacceptable reliability and validity. Research examining the different traits or other psychological factors characterizing the entrepreneur needs to take into account the
complexity of the entrepreneur’s situation. This is because trait theories are not sophisticated enough to account for the complexity of entrepreneurial behavior.

Therefore, further researches should be established towards more proximal explanations where entrepreneurial behavior and business performance are explained by more proximal psychological theories and where the effect of the situation is better controlled. At this point in time the potential role of personality traits should be presented as a series of interesting possibilities, and a subject for further research, rather than as established facts.

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A Comprehensive Review of Customer Resources

Introduction

Marketing has been defined as “the activity, set of institutions, and processes for creating, communicating, and delivering, and exchanging offerings that have value for customers, clients, partners and society at large” (AMA, 2007). This new definition of marketing focuses on value creation as the goal of marketing and takes marketing to a new level (Gronross 2008). Sheth and Uslay (2007) have argued that gearing marketing towards value creation may indeed be the contemporary focus for marketing.

Value has been discussed in marketing literature for decades and this interest in ‘value’ and the value construct continues to grow (Parasuraman 1997; Woodruff 1997). One of the reasons for this growing interest is that the value concept has always been the fundamental basis for all marketing activity (Holbrook 1994). Further, customer value is considered an important pre-requisite for long-term company survival and success (Porter 1985; Woodruff 1997; Payne and Holt 2001).

Traditionally, value was viewed in the literature as embedded in a product that is exchanged, the value-in-exchange notion. Companies created value through activities inside the company walls, disconnected from the market. In this perspective the market had a uniform role as an aggregation of customers disconnected from the value creation process, seen as an aim for the company offerings (Prahalad and Ramaswamy 2004).

The contemporary view in marketing literature however is that value is a subjective process created and defined by consumers during use, i.e. value is co-created by the customers during use. This view implies a truly customer oriented perspective of the value concept and has been put forward by Norman and Ramirez (1993), Norman (2001), Holbrook (1994), Ravald and Gronroos (1996), Woodruff and Gardial (1996), Woodruff (1997), and more recently by Gronroos (2000, 2006, 2008, 2008b), Prahalad and Ramaswamy (2004) and Vargo and Lusch (2004, 2008) to name a few. The new perspective of value is emphasised by high-quality interactions between the company and the customer, enabling the co-creation of unique value that might lead to alternative sources of competitive advantage.

Thus, value and the process of value creation are rapidly evolving from product and firm centric perspectives (Porter 1985) to ‘personalised consumer experiences’ that involve customers as active players in the co-creation process (Prahalad and Ramaswamy 2004). Vargo et al. (2006) emphasise that “there is no value until an offering is used – experience and perceptions are essential to value determination” (Vargo and Lusch 2006, p. 44). This implies that the concept of value co-creation inherently requires input (i.e. customer participation and customer’s own resource input) from the beneficiary (i.e. the customer). Thus, this paper aims to provide a more comprehensive framework for customer resources based on review of the existing literature on customer participation and customer resource
input. The paper concludes with a discussion on contributions and directions for future research.

**Literature Review**

The concept of customer participation however, is not new, as early as 1938 Barnard noted the role played by customers (see Novicevic et al. 2006: 308). What is new is the recognition that the service providers are only providing partial inputs into customers’ value-creating processes and thus the importance of co-opting and empowering customers’ co-creator role (Bendapudi and Leone, 2003; Vargo and Lusch, 2004). Although customer participation has received a lot of attention, very few researchers have defined the concept of customer participation. In fact, only a few have provided explicit definitions, while others merely refer to common sense (Fitzsimmons 1985; Bowers et al. 1990; Bitner et al. 1997). Table 1 provides a chronological review of definitions of the concept of customer participation. The table indicates that there is no clear acknowledged definition of the concept.

**Table 1: A review of definitions on customer participation.**

<table>
<thead>
<tr>
<th>Author</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Kelly et al. 1990: 315</td>
<td>“For many services, the customer is required to contribute information or effort before the service transaction can be consummated”.</td>
</tr>
<tr>
<td>Dabholkar 1990: 484</td>
<td>“The degree to which the customer is involved in producing and delivering the service”.</td>
</tr>
<tr>
<td>File et al. 1992: 6</td>
<td>“‘Participation’ as a marketing construct, refers to the types and level of behaviour in which buyers actually engage in connection with the definition and delivery of the service (or value) they seek”.</td>
</tr>
<tr>
<td>Cermak et al. 1994:91</td>
<td>“Participation refers to the customer behaviours related to specification and delivery of a service”.</td>
</tr>
<tr>
<td>Bettencourt 1997: 402</td>
<td>“The customer’s active role in the production and delivery of a service”.</td>
</tr>
<tr>
<td>Rodie and Kleine 2000: 111</td>
<td>“Customer participation (CP) is a behavioural concept that refers to the actions and resources supplied by the customer for service production and/or delivery. CP includes customers’ mental, physical and emotional inputs”.</td>
</tr>
<tr>
<td>Namasivayam, 2003: 422</td>
<td>“The consumer’s role in production processes, whether it is a service or tangible good”.</td>
</tr>
<tr>
<td>Hsieh and Yen, 2005: 895</td>
<td>“The extent to which customers provide resources in the form of time and / or effort, information provision, and co-production during the service production and delivery process”.</td>
</tr>
<tr>
<td>Lusch and Vargo, 2006: 284</td>
<td>“(Co-production) involves the participation in the creation of the core offering itself. It can occur through shared inventiveness, co-design, or shared production of related goods, and can occur with customers and any other partners in the value network”.</td>
</tr>
</tbody>
</table>

Table 1: Plé et al. 2010:233
Customer participation literally refers to customer contribution or input in something. A review of literature on the nature of customer participation showed that contribution of customer may take different forms (Kelly et al. 1990). Rodie and Kleine (2000) mention three kinds of inputs – mental, physical and emotional. Mental inputs refers to the mental efforts made by the consumer to structure information given to the company, to understand how to get the product, or to understand what he is supposed to do as a participant (Mills et al. 1983; Mills and Turk 1986; Rodie and Kleine 2000). In other words, the “cognitive labour” (Rodie and Kleine 2000: 112) that customers are involved in. Physical inputs “include customers’ own tangibles and physical efforts” (Rodie and Kleine 2000: 112). Tangibles could include the customer’s own body (for example, the customer’s face when going to a beautician) to goods owned or managed by the customer, such as clothes taken to the dry cleaners (Lovelock 1983). Physical efforts includes ‘physical labour’ for the customer, they include actions undertaken during participation (for example, walking around the university during the open day). Emotional inputs include all the emotions felt by customers while participating. Vargo and Lusch (2004) refer to these customer inputs as operant resources that are dynamic in nature and a primary source of value.

Literature on customer participation has long since recognised that consumers have a wealth of personal resources that they actively use in the value co-creation (Bowen 1986; Kelly et al. 1990; Rodie and Kleine 2000; Vargo and Lusch 2004; Payne et al. 2008). The S-D logic (Vargo and Lusch 2004) suggests that all customers in the value-creation process should be viewed as dynamic operant resources. The customers’ operant resources have been classified by Arnould, Price and Malshe (2006) as physical, social and cultural resources, Table 2.

### Table 2: Classification of consumer resources

<table>
<thead>
<tr>
<th>Operant Resource Classification</th>
<th>Sub-Classification</th>
</tr>
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<tbody>
<tr>
<td>Physical Resources</td>
<td>Physical and mental endowment; Energy; Emotion; Strength.</td>
</tr>
<tr>
<td>Social Resources</td>
<td>Family relationships; Social connections; Consumer communities (co-consumer relationships); Commercial relationships.</td>
</tr>
<tr>
<td>Cultural Resources</td>
<td>Cultural capital - specialized knowledge / skills; History; Imagination.</td>
</tr>
</tbody>
</table>

**Source:** Arnould, Price and Malshe (2006)

As is evident, what Arnold et al. (2006) refer to as physical resources, Rodie and Kleine (2000) refer to as physical (doing), mental (thinking), and emotional (feeling) inputs of participation. In addition to physical resources, Arnould et al. (2006) include social and cultural resources to the customer’s stock of operant resources. Arnould et al. (2006) argue that recent research in consumer cultural theory shows that customers deploy social operant resources to achieve their life projects and perform their life roles. Social resources are networks of relationships with others including traditional demographic grouping (families, ethnic groups, social class) and emergent groups (brand communities, consumer tribes, subcultures, friendship groups) (Giddens 1979; Arnold et al. 2006). Further, there is evidence in literature that social connections can be considered a social operant resource. For instance, a series of studies show that while making brand choice, consumers heavily draw on their social connections (Sirsii, Ward and Reingen 1996; Ward and Reingen 1990; as cited by Arnould et al. 2006). In addition, a growing body of research has focused on value created...
through other co-consumer (consumer-to-consumer) exchanges (Grove and Fisk 1997; Gruen et al. 2007; Harris et al. 2000; Nicholls 2005; Price and Arnould 1999). When customer are faced with insufficient personal resources (example, knowledge) in a critical phase of their decision-making process, they frequently turn to other consumers (often total strangers), for advice on product selection (Harris and Baron 2004; McGrath and Ottes 1995). Enhanced by computer-mediated communications (chat rooms, sponsored Web sites, consumer-to-consumer marketing etc.) consumer groups now have a greater voice on the co-creation of value than before.

The final input referred to by Arnould et al. (2006) is the consumer’s cultural operant resource. Consumer culture researchers refer to cultural operant resources as cultural capital. Cultural capital consists of a set of socially rare and distinctive taste, skills, knowledge and practices (Bourdieu 1984 as cited by Holt 1998). Cultural capital is usually fostered by upbringing in families with well-educated parents whose occupations require cultural skills, interaction with peers from similar backgrounds, high levels of formal education at institutions that attract other cultural elite and then refinement and reinforcement in occupations that emphasis symbolic production. Thus cultural capital exists in three primary forms: embodied as implicit practical knowledge, skills and dispositions; objectified in cultural objects; and institutionalized in official degrees and diplomas that certify existence of the embodied form (Holt 1998).

Just as there is no clear acknowledged definition of customer participation, the above discussion indicates that there is no clear acknowledgement of the resources or inputs that consumers being to the value co-creation process. Although the customer resources or inputs identified by Rodie and Kleine (2000) are probably cited more often, the literature reviewed in the previous sections reveals that the resources or inputs identified by Arnould et al. (2006) are more comprehensive and include the inputs identified by Rodie and Kleine (2000) in addition to other resources.

**Comprehensive Customer Resource Framework**

Although consumer operant resources identified by Arnould et al’s (2006) seem comprehensive, a further review of literature provides that two other customer resource input components, that is, time and personality can be added to Arnould et al’s. (2006) classification. Time has not been specifically mentioned in the Arnould et al. (2006) classification. There is evidence in literature that the time a customer is willing to spend to get a product or service should be taken into account in the assessment of the total value of the product or service for the customer (Beaven and Scottie 1990; Song and Adams 1993). Time expenditure of customers relates to time spent by the customer thinking, doing, listening or talking to others. Although time expenditure varies greatly from one context to another, it is an important resource that consumers invest in the co-creation process and needs to be emphasised.

Although Arnould et al. (2006) allude to personality in their classification, evidence from literature suggests that it needs to be emphasised. Personality of the consumers includes personal traits, attitudes, personal interest, personal values, personal circumstances and life experiences of consumers. A number of studies have attempted to relate purchases of products types or specific brands to personality traits from as early as the 1950's (Martineau 1958; Howard and Sheth 1969; Kassarjian 1971; Holbrook and Hirschman 1982; Puccinelli et al. 2009). Table 3 provides a more comprehensive classification of consumer resources based on the evidence from literature as suggested by this research.
Table 3: A more comprehensive classification based on evidence from this research

<table>
<thead>
<tr>
<th>Operant Resource Classification</th>
<th>Sub-Classification</th>
<th>Comprehensive classification based on evidence from this research</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consumer Physical Resources</strong></td>
<td>Physical and mental endowment; Energy; Emotion; Strength.</td>
<td><strong>Physical resource</strong> refers to the physical inputs of consumers in terms of energy; strength of customers; and <strong>time</strong> invested my customers.</td>
</tr>
<tr>
<td><strong>Consumer Social Resources</strong></td>
<td>Family relationships; Social connections; Consumer communities (co-consumer relationships); Commercial relationships.</td>
<td><strong>Mental resource</strong> refers to the emotional and mental inputs such as emotions, intellect and <strong>personality</strong>.</td>
</tr>
<tr>
<td><strong>Consumer Cultural Resources</strong></td>
<td>Cultural capital - specialized knowledge / skills; History; Imagination.</td>
<td></td>
</tr>
</tbody>
</table>

**Conclusion**

This study thus adds to theory by providing a comprehensive framework on consumer resources that can serve as a theoretical foundation for empirical research in this area. It enabled a more comprehensive classification of Arnould et al’s (2006) framework on customer resource inputs. As the contemporary view is that value is defined and co-created by the customer during use, future studies need to examine the integration of firm resources and customer resources in the process of value co-creation. As there is evidence in literature that very little is known about how consumers integrate their resources. For instance, Vargo and Lusch (2006: 284) state that the “resource integration concept needs refinement and elaboration”. Arnould et al. (2006: 95) too posit that “much remains to be done to systematise our understanding of customers’ operant resources .... we know relatively little about the interaction among the various types of consumer operant resources”.

**Reference**


Sustainability of Microfinance Programs – An Empirical Investigation Based On India

Introduction

Microfinance has caught the eye of the financial institutions all across the world and it has emerged as a global product that can be successfully aimed towards alleviating poverty and achieving sustainable growth. The importance given to microfinance by significant global institutions can be gauged by the fact that the United Nations declared 2005 to be the International Year of Microfinance. The primary aim of the United Nations Millennium Development Goals is to reduce poverty by 2015 (World Bank, 2003). This involved the implementation of a micro financing strategy by the banking sector, which essentially meant providing small loans to the poor, particularly poor women. Microfinance sector is experiencing continuous growth even when all other financial sectors are on droll drums due to the ill effects of global financial crisis; in fact the investment in this sector is increasing (Agashe, 2009). It is estimated that around US $ 4 billion is invested annually in microfinance (Zallaberg, 2006). However how efficiently is this money being spent is a matter of contention.

There exists a profound cleavage of opinions with regards to the success and failures of Microfinance Interventions in achieving sustainable growth. The literature promotes the potential for substantial growth of micro-financial services as a means to alleviate poverty and empower the poor (Isern 2005; Prahalad 2000, 2002, 2003; Cohen 2002; Dunn, 2002; Imboden, 2005; CGAP 2006). Micro-finance as has over turned established ideas of the poor as consumers of financial services” and demolished the assumption that the poor were “unbankable” (Woller 2002,). However researchers have uncovered various reasons for failure of sustainable growth of these interventions based on studies conducted in different parts of the world citing issues related to gender, interest rates, conflict between villagers (Haasan 2002, Snow and Buss,2001, Floro and Dymski, 2000). Another reason of microfinance failing to meet its objectives is because of the failure to blend the product taking into account local needs and preferences (glocal approach) (Rugimbana, 2005). There is need for continued research which could provide insights into a successful business model surfaces in this context of ambiguity. The study will evaluate the effectiveness of the strategies for sustainable growth deployed by the formal financial sector in providing microfinance programs to the rural poor in India.

India is experiencing the fastest growth of MFI s in the world. According to a draft report prepared by Intellecap, a capital advisory firm, the demand for microfinance in India has been projected at around US$20 billion. The figure indicates that microfinance is indeed a rapidly emerging market. Not to be left out, many banking institutions are reaching out to the financially deprived people through the microfinance route. The entry of commercial banks as a lender of microfinance in India is expected to make some changes in this sector. However it raises a few fundamental questions on the effectiveness of their strategy regarding
poverty alleviation and sustainability. Only a very few studies have been undertaken in bank marketing relating to microfinance, previous research was heavily focused on Western countries (Jamali and Mishrak, 2007). One of the reasons for this is the banks are recent entrants in this area which was dominated by NGO’s. This warrants the need for continued research and is particularly important for a country like India where the microfinance sector is experiencing tremendous growth despite the recent controversies. The results of the study are expected to provide directions for policy makers and researchers. The focus of this paper is to investigate the effectiveness of the strategies deployed by the commercial banks in India in providing microfinance to the rural poor and to find out the impact on that on alleviating poverty and achieving sustainable growth.

Literature Review

Microfinance has a long history, although this term came into prominence in the recent past. Microfinance has been in operation in different countries though it has taken slightly different forms. Microfinance refers to the provision of financial services to poor people to help them start or to strengthen their business (Schreiner and Woller, 2003). Microfinance is a relatively new term; however, the concept of microfinance is not new. Most societies and cultures have a long and rich history of traditional or informal savings and credit arrangements. The “Susus” and “Tontines” of West Africa, the “Chitfunds” of India, the “Tandas” in Mexico have operated for centuries (Cunningham, 2000). The precedence of microfinance lies in many traditional and informal systems of credit that have existed in developing economies for centuries. Many of the current practices are derived from the community-based mutual credit transactions that were originally based on trust, and peer based, non-collateral borrowing and repayment systems. The first microfinance organisation started in South Asia approximately 30 years ago. Since then they have spread to Latin America, Southeast Asia, Africa, China and the economies of the former Soviet Union (Remenyi, 1997).

Donor agencies, international non-government organisations (NGOs), universities and research institutions have played a major role in mainstreaming microfinance programmes. The most famous microfinance organisations are the Grammeen Bank of Bangladesh and the Bangladesh Rural Advancement Committee (BRAC). Both were established in the late 1970s as pilot projects. The microcredit innovations in Bangladesh, Bolivia and Indonesia demonstrated the success of micro lending to the poor without collateral requirements. A number of these institutions experienced sound growth in the late 1970s and 1980s. However, the success of these institutions was only known to the outside world after a lag of time. As a result, microfinance achieved only limited attraction in the 70s and 80s regardless of the successful models practised in different countries. In the 1990s, microfinance was given much attention by governments, donor agencies and other opinion leaders in both industrial and developing countries. The world development report by the World Bank in 1990 suggested an approach that was market friendly and also recognised the importance of direct interventions to reduce poverty. In this approach, sustainable reductions in poverty could be achieved through a dual strategy of promoting the productivity of the poor and providing basic social services to them (World Bank, 1990). These interventions demonstrated techniques for lending to the poor with better outreach and cost recovery (Rhyne, 2001).

Universal Appeal of microfinance

Microfinance is seen as an important means of increasing the productivity of the poor, and it also helps to address the market failure of credit markets (Joseph, 1993). In 1995 The World Bank initiated the formation of the Consultative Group to Assist the Poorest (CGAP) to
increase the resources devoted to microfinance. CGAP has more than 30 members, comprising of international financial institutions, development agencies and donor agencies (McGuire and Conroy, 2000). In 1997 the first microcredit campaign was held in Washington DC. The summit was attended by more than 1500 organisations from 137 countries, including a number of Heads of State. The summit launched an ambitious 9-year campaign to reach 100 million of the world’s poorest families by 2005. The Microcredit Summit saw microfinance as having enormous potential for reducing poverty (Microcredit Summit, 1997).

The universal appeal of microfinance stemmed from its ability to reach the poor without collateral security and improved repayments rates, which is often described as a win-win situation. According to the report submitted by the Microcredit Summit Campaign, as of December 31, 2004, 3164 microcredit institutions had reached 92.27 million clients. Microfinance is not confined to NGOs or government agencies. Now, commercial banks and other profit-centred institutions are entering this sector. The popularity of microfinance among different donors arises because they believe that involvement in microfinance programmes helps them retain credibility as a development agency (Remenyi and Quinones, 2000). This can also be a possible reason for the entry of commercial banks into the microfinance sector. However, microfinance programmes have their fair share of criticism from researchers. This is discussed in the next section.

**Microfinance and Sustainability**

Sustainability is a broad term. In the context of microfinance it means that the receiving community should be able to continue without assistance after its liabilities have been paid up. Microfinance is business finance and not a grant or a dole. The customers should repay the loan with principal and interest in due course of time, failing so the installments, the whole community will be held responsible. However if the enterprise is not generating surplus funds to repay the loan the microfinance customers will end up in the debt trap. Thus an essential condition is that an enterprise should be sustainable within a reasonable period of time. The literature suggests that despite the global appeal and popularity of microfinance, it has failed to achieve the objectives of reducing poverty in different countries, especially in Africa. In 2004 the Paris Declaration argued for increased harmonisation of activities by development agencies, taking into account local needs and aspirations. This has prompted the formal financial sector to come up with strategies that lead to sustainable development in targeting rural poor who did not have access to formal credit. This study focuses on this type of bank and the role they play in reducing poverty.

**Alleviation of poverty and improving lifestyle through microfinance**

Microfinance is seen as an important means of increasing the productivity of the poor, and it also helps to address the market failure of credit markets (Joseph, 1993). In 1995 The World Bank initiated the formation of the Consultative Group to Assist the Poorest (CGAP) to increase the resources devoted to microfinance. CGAP has more than 30 members, comprising of international financial institutions, development agencies and donor agencies (McGuire and Conroy, 2000). The past two decades microfinance has advanced from a new concept to a successful tool for poverty alleviation (Carlin, 2006). The world has witnessed the emergence of microfinance from a “novel” idea to a Nobel Peace Prize winning concept for poverty alleviation (Rogaly, 1996; Carlin, 2006). The low default rates of microfinance coupled with women empowerment have created an impression that poverty in low income countries is slowly being obliterated (Develtere and Huybrechts, 2005). However a few studies have even found that microfinance has a negative impact on poverty; poor households simply become poorer through the additional burden of debt (Hulme and Mosley,
Most studies suggest that Microfinance is beneficial, but only to a limited extent (Dichter, 1996). According to a report by CGAP, about half the families in the world lack access to a bank account. The report concluded that as a rule, in countries with low income where financial access remains limited and recommends that MFIs have more responsibility for promoting activities related to financial inclusion, such as savings and access to rural areas (CGAP, 2010).

The majority of the banks pursuing microfinance through the notion of CSR claim that it leads to sustainable development for both users and providers. For the consumer, the benefit comes from accessing credit from the formal financial sector, which can be used for business activities that would assist them to break the poverty cycle. The banks claim that by pursuing the aforementioned strategies they help people to follow business values and it satisfies the requirements of the organisation itself, and its stakeholders. This in turn helps the bank to maintain legitimacy and sustainability, thus assisting them to become more competitive in the market. However, microfinance programmes have their fair share of criticism from researchers. This is discussed in the next section.

**Criticism on microfinance**

*Lack of sustainable practices*

As their popularity grows, microfinance programmes face a growing number of critiques. The critics have not denied that microfinance institutions can and should become sustainable; however, they have questioned the impact of microfinance on poverty reduction and the sustainability of those programmes. With micro lending being practised by a range of institutions in over 100 countries, from the richest to the poorest, this calls into question the extent to which lessons can be applied to different contexts. Furthermore, most micro lending programmes depend significantly on donors, as they are often highly subsidised (Adams et al., 1984). Therefore, even if microfinance programmes reach the poor, they may not be cost-effective and hence, perhaps, not worth supporting as a means of transferring resources.

*Limited growth potential*

Others contend that the micro enterprises supported by these programmes have limited growth potential and so will not have a sustained impact on the poor. Rather, it is argued, microcredit programmes make the poor economically dependent on the programme itself (Bouman et al., 1989). Moreover, in practice, microcredit may still not reach the very poorest, as some borrowers experience credit rationing in microcredit programmes, including inequality in terms of benefits and loan sizes and limited access to service (Baydas et al., 1997, Joseph, 1993). Dale Adams of Ohio State University is of the opinion that the microfinance movement encourages poor households to take on loans that they may not able to service. This view is supported by further studies conducted by Snow and Buss (2001). Gonzalez Vega (1998) questions the goals and expectations established by the Microcredit Summit. He argues that these goals are based on wrong assumptions of the role of finance and disregards the difficulties in expanding the financial system to include the poor (Gonzalez-Vega, 1998).

*Social and economic problems created by Microfinance*

Some studies have pointed to several social and economic problems in some of the programmes. Some of these are:

High interest rates (Hassan, 2002).
Risk of ending up in a circle of debt (Snow and Buss, 2001).
Fragility of credit financed household (Floro and Dymski, 2000).
The risk of free-riding and conflicts between villagers and gender (Hassan, 2002).

From the different opinions and result of researchers, it is clear that there is considerable
disagreement about the potential of the microfinance movement. Despite all the criticisms on
microfinance, this sector continues to grow. The major providers in the microfinance sector
are NGOs and Banks are the recent entrants.

Retail banks and microfinance institutions in India
Banks have more scope in selling their microfinance programmes in developing nations like
India, which has a large number of people who are poor and who consequently have no
banking services. The Indian economy at present is at a crucial juncture. The Gross Domestic
Product is now growing at the rate of more than 7 percent (RBI, 2010). However, the growth
is mainly to the result of upper class and middle class activity. A recent study conducted by
Oxford University and the Human Development Report Office of the United Nations
Development Program (UNDP) found out that there are 421 million poor people in India,
which is more than the poverty figure in 26 African poor countries combined (410 million)
(UNDP Report, 2010). This is approximately 42% of the total population of India. The
relevance of microfinance surfaces in this context. Traditionally, the formal sector banking
institutions in India have served only the needs of the commercial sector through the
provisions of loans for middle and upper income groups. However, microfinance has
emerged as a recent initiative by some new age banks in India through the practice of CSR
targeting the rural poor. The ICICI Bank was the first bank in India to enter into the
microfinance sector in 2002. This was followed by other banks, including HDFC, HSBC,
ABN Amro and Axis Bank. At present there are more than half a dozen commercial banks
operating in the Indian microfinance sector.

Commercial banks are involved in microfinance in many ways: government-subsidised
lending programmes through the banks, government-mandated lending targets met by banks
subsidising interest rates, government-mandated lending targets with banks charging
commercial interest rates, and microfinance as a profitable business (Conroy et al., 2000). In
India, all models are present. However, this study focuses on the latter model, where the new
age banks consider microfinance as an opportunity to serve the rural poor and also to make it
a profitable venture.

Banks in India have entered the microfinance lending market, and many are partnering with
regional microfinance institutions. Increasingly, loans as small as US$100 are being made by
mainstream Indian banks such as the ICCI, HDFC, HSBC, ABN Amro and Axis institutions.
Founded in 1977, the HDFC had net income for the 2009-2010 financial year of about
US$628 million and 24 rural partners (HDFC, 2010). The Mumbai-based Axis began in
1994, and is 72 percent publicly-owned. It had net income in 2009-2010 of US$385 million,
and operates 450 branches and more than a thousand ATMs throughout India. In its Annual
Report for 2005–2006, reference is made to increasing microfinance activities by offering
new services to rural clients. ABN Amro is a relatively new entrant in the microfinance
sector; however, the bank has set ambitious targets in relation to the sector and wants to be
among the top five funding institutions of microfinance in India.
**Objective of the study**

The basic research objective in this study was to assess the success of microfinance intervention programmes and strategies pursued by the new age banks in India under CSR. The managers of new age banks are instrumental in developing and implementing microfinance programmes. Consumers who are the beneficiaries of the microfinance ventures have low annual incomes and are located in remote villages. These groups of people have been largely neglected so far by financial institutions; the microfinance initiatives by the bank provide a solution to this problem by giving access to the services for the rural poor. It would be critical to know the impact of these products on their daily lives. Are they able to break the cycle of poverty or are they plunging them into more debt? Are they content with the level of services and products offered and how do the customers view the initiatives of the bank? Banks who pursue microfinance initiatives want to see their practices being perceived as legitimate by stakeholders. They want their programmes to be both sustainable and achieve consumer satisfaction thereby getting legitimacy in the eyes of stakeholders. On the basis of the above discussion, the following hypotheses were formulated

_Ho:_ Customers of microfinance programmes are discontent with the sustainability of income generation activities  
_HA:_ Customers are content with the sustainability of the income generation activities

**Theoretical Framework**

The theoretical framework of this study is grounded on the 4 A framework put forward by Anderson and Billou (2007). They suggest a developmental approach which delivers 4 A’s which is Acceptability, Availability, Affordability and Awareness. The primary objective of their research was to find out the best practices in serving poor customers on developing markets. At the end of their two year long exploratory research they found the core success factors of an organisation which serves the poor is how they implement the 4 A framework.

Affordability- This is the degree to which an organisation products and services are affordable to the customers. Micro financiers are often accused of charging higher interest rate (Hassan, 2002, Chavan and Ramakumar, 2004). The research intends to test this factor by getting consumers opinion on interest rate charged on their microfinance loans.

Acceptability – It is the extent to which companies adapt their product and services to meet the unique needs of the customers. Microfinanciers have traditionally relied on a one-size-fits-all policy (Bhatt and Tang 2001). This approach focuses on providing credit only. The one-size-fits-all approach does not seem to work, as different countries and cultures have different needs and follow different norms. Researchers attribute the failure of microfinance interventions in East Africa to not paying enough attention to an appropriate balance between globally derived and locally acceptable ideas that is, a glocalized approach (Rugimbana, 2005).

Availability-Getting the product and services to the poor could be one of the challenges faced by the companies serving them. These communities are isolated and often deprived of basic infrastructure and communication facilities which make the task of reaching them. This is particularly applicable to microfinance customers as the majority of them are from rural background and resides in under developed country. Researchers have argued that, Microfinance may still not reach the very poorest, as some borrowers experience credit rationing in Microfinance programmes, including inequality in terms of benefits and loan sizes and limited access to service (Baydas et al., 1997, Joseph, 1993).
Awareness - It is the degree to which customers are aware about the product and service offered by the organisation. Loans to consumers of microfinance are disbursed through SHG’s. The MFI provide training to the customers of the product and services. This is being transmitted to the local community through word of mouth.

The research frame work looks at it from the customer’s point of view. How the different factors of this model affect customers of microfinance. In the present context it is important for banks to understand the underlying thought process of consumers by understanding their attributes regarding the MFI programmes in the light of 4 A frame work and the impact it makes on their daily lives.

**Research Methodology**

**Data sources and instrument development**

The approach of the study was to determine consumer experience and contentment with regard to the sustainability of the microfinance aspects of the banks. The sampling frame for the study was consumers in the rural area of the Southern States of Tamilnadu and Kerala in India. A cluster sampling approach was followed, with each State representing a cluster. The cluster sampling approach can be based on any natural occurring grouping (Saunders, et al, 2008). In the case of cluster sampling the practice is to select the clusters at random; however in this case the States have not been selected as such.

The questionnaire was taken verbatim from the original Lundstrom and Lamonth (1976) questionnaire and from other studies, no changes in terms of their scaling were made. However, minor modifications were made to the Lundstrom version for this study, whereby a five-point response scale was used in place of the original six-point scale, for ease of response, data entry and analysis. A similar approach was successfully used for a shortened version of the Lundstrom scale by Rugimbana et al. (1994). The advantage of using "old" instruments (tested for reliability and validity), or parts thereof, is in their control for halo effects (Wilkie & McCann, 1972; Razzaque, 1994); its cultural positioning effects (Bond, 1988); or the tendency for respondents to use particular portions of the scales, which in this case originate from Western society. Individualistic cultures tend to be centripetal in their use of scales, while collectivistic cultures tend to be centrifugal in their responses. Most of the scales used tend to reverse order their scales in-keeping with Wilkie and McCann's (1972) recommendations. In analysing the data, each of the Likert-type statements was assigned a weight from 1-5 or 5-1 depending on the order of the statement, positive or negative, in relation to the underlying construct in operation for the statement. The mean of all the scores obtained by the statements were used to operationalise a particular construct, which was then deemed to be the score for that construct.

**Pre-test of questions to assess validity**

Selection of questions is critical in a survey. The questions were prepared by the researcher based on the judgment of the researcher and needed to be tested before they were administered. The objective of this pre-test is to refine the questionnaire (Saunders et al., 2006). The preparation of the research instrument was guided by the relevant literature and expert opinion in the field of research. Saunders et al., (2006) suggest that, initially, the questions should be provided to a group of experts to comment on their characteristics and appropriateness. This process of allowing suggestions to be made on the structure of the questionnaire would help establish content validity (Mitchell, 1996). The pilot test of the
questionnaire developed for this study were conducted in two stages. In the first stage, as suggested by Saunders et al., (2006), the questionnaire was reviewed by three academics familiar with microfinance programmes and the Lundstorm and Lamont scale. This process ensured the integrity of the content and encountered scrutiny on the validity of its constructs. Comments and suggestions were incorporated into a revised questionnaire.

The second stage of the pre-test was conducted among a few selected customers of microfinance in the State of Kerala and Tamilnadu. Fink (1995) suggests that the number of responses for the pilot test should be sufficient to include any major variations in the population that might affect responses. For most questionnaires the minimum number of pilots required is 10 (Fink, 1995). Malhotra et al (2004) suggests that the respondents of the pre-test should be similar to those who are included in the actual survey, which is why it was decided to do the pre-test among the customers of microfinance. The researcher visited an SHG in Trichur district, in Kerala, and, with the help of the field manager, tested the questionnaires in Malayalam by providing the questionnaire to 10 selected customers of microfinance. A similar process was repeated in the State of Tamilnadu. Ten questionnaires in Tamil were tested among customers in Kanyakumari district. Fink (1995) suggests that in a pilot test the researcher should check the complete questionnaire to ensure that respondents have no problems in understanding or answering the questions. Respondents should also be able to follow the instructions correctly. This process, according to Saunders (2006), ensures the reliability and suitability of the questions. For the purpose of the research, the responses from customers were checked and feedback from customers on clarity of instructions given and the wording of the questions was noted.

Data Collection and Analysis
Data was collected from the customers of banks who pursue microfinance as part of their CSR. The customers are organised themselves into Self Help Groups (SHGs) and they hold meetings every week. Each SHG consisted of 15 to 20 members. The data was collected by visiting 10 SHGs each in Kanyakumari and Trichur district of Tamilnadu and Kerala respectively. The questionnaire was distributed at the end of the meeting. After each SHG meeting the researcher gave a brief introduction, explaining the purpose of the study assuring the respondents of strict anonymity. Out of the total of 316 questionnaires collected, eight of them were found to be incomplete. The response rate was 97.5 percent. This is in line with the claims of Saunders et al (2006) that delivery and collection questionnaires by following this method can receive up to 98 percent response rate. After checking for outliners the final set of data comprised 151 Malayalam questionnaires (Language of Kerala) and 150 Tamil (Language of Tamilnadu) questionnaires, which make a total data set to 301. The final 301 questionnaires, were all used for analysis of the research.

RESULTS
Contentment and Discontentment Analysis of Variables-Reliability Test
Consumer sentiments cannot be measured by one or two questions. The relevant information is extracted through a number of questions. Questions are like jigsaw puzzles which when taken together give the answer without prejudice. Therefore the questions asked must have some amount of correlation. Reliability tests measure the extent of correlation among the questions asked. If the questions are irrelevant the correlation will be poor. The researcher has selected internal consistency and the split-half reliability tests for the questionnaires framed for quantitative analysis. The internal consistency was estimated by Cronbach’s alpha (α). The analysis was done using SPSS. A combined analysis of both the respondents from
State of Kerala and Tamilnadu was undertaken to gauge the (dis)contentment on various issues. The reliability tests conducted produced the following results.

**Sustainability**

Nine statements are grouped under sustainability. Specific statements related to micro-enterprise development and financial stability are included in this section. Reliability testing produced the following results.

<table>
<thead>
<tr>
<th>Table 1 Reliability test results of Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Items</td>
</tr>
<tr>
<td>Alpha</td>
</tr>
</tbody>
</table>

**Reliability Coefficients**

<table>
<thead>
<tr>
<th>Correlation between forms</th>
<th>.5485</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guttmann Split-half</td>
<td>.6944</td>
</tr>
<tr>
<td>Items in part 1</td>
<td>Items in part 2</td>
</tr>
<tr>
<td>Alpha for part 1</td>
<td>.6376</td>
</tr>
<tr>
<td>Alpha for part 2</td>
<td>.3635</td>
</tr>
</tbody>
</table>

There was only one negative question and it was reversed to determine the combined mean and standard deviation. Most of the individual responses had a mean below 3 and the combined mean was just above three. The combined mean value, which is marginally above three, does not show much by way of strong discontentment. However, analysis of the data shows that the consumers had serious doubts about the sustainability of the programmes. There were many direct questions related to the sustainability of microfinance schemes. Surprisingly, the majority of consumers gave negative replies to most of the questions. For example, consumers of microfinance seemed to have no belief in the sustainability of the income generation activities they started while using the funds. Fifty-seven percentage of consumers thought that Microfinance did not help them raise their standard of living. Sixty-five percent did not think that the income from their ventures enabled them to provide three meals a day for their families. Seventy-five percent did not feel that microfinance had helped them to provide a safe shelter for their families. Seventy-two percent did not think that they could send their children to school using the income provided by the microfinance venture. These are very critical answers and they clearly show the cynicism of consumers about the outcome of the schemes. Even though the questions were worded for positive answers, the answers were negative, thus showing clear discontentment on the part of consumers.

**Hypothesis testing**

*Ho: Customers of microfinance programmes are discontent with the sustainability of income generation activities (That is, \( \mu \geq 3 \)).

*HA: Customers are content with the sustainability of the income generation activities (That is, \( \mu < 3 \)).

The overall mean and standard deviation of the combined variables were determined using SPSS. The overall mean of sustainability is 3.01 and technically it shows discontentment as the mean figure is just above 3. The results of t-test are shown in Table
Table 2  Overall mean and standard deviation of Sustainability

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability</td>
<td>3.01</td>
<td>.56160</td>
</tr>
</tbody>
</table>

Table 3  Result of t test for Sustainability

<table>
<thead>
<tr>
<th>T</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>249</td>
<td>.803</td>
</tr>
</tbody>
</table>

The p-value of this test is equal to .803, which is greater than $\alpha=0.05$ indicated that the null hypothesis $H_0: \mu \geq 3$ should not be rejected. In other words, there is no evidence to support the alternate hypothesis that the “Customers are content with the sustainability of the income generation activities”. This indicates that the hypothesis “Customers of microfinance programmes are discontent with the sustainability of income generation activities” is supported by the data.

**Sustainability from Managers perspective**

Managers’ views on sustainability of the programmes were gauged by analysing their responses in the areas of operating cost, integration of social and business strategies, interest rates, and return rate of loans. Managers of new age banks and MFI were all highly motivated regarding their microfinance activities and CSR. They had a deep understanding of microfinance and the CSR component in the implementation of microfinance programmes. However all had the difficult task of meeting the conflicting demands of both.

**Diversion of funds**

Sustainability of the programmes was affected by the diversion of funds for other uses. Field officers of MFI who had direct contact with the consumers of microfinance indicated massive diversion of microfinance funds for other uses. This resulted in shortage of funds for genuine investments in business, resulting in reduced returns. One of the main reasons for the low rate of return of businesses was the diversion of loan funds to other purposes (Hume, 2007). Only 34 percent of customers from Tamilnadu and 35 percent of customers from Kerala invested fully in the business. Hundred and ninety customers out of 292 respondents either had a debt to pay or had personal expenses that they gave priority to over investment in income generation activity. The interview with bank managers revealed that they did not conduct checks on the utilisation of loans, and all of them agreed that loans given for income generating activities were not fully invested, though their estimates differed widely. The table below provides a comparison of manager and the customer views about the percentages of investment activities believed to be done using microfinance.
The field managers and senior manager of MFI were highly pessimistic in their evaluation; they estimated that only 20 percent was invested in income generation activities. However, the actual percent invested was higher. On the other hand, new age bank managers and the managing director of the MFI were relatively optimistic. Only 49 customers which is 34 percent of respondents from Tamilnadu and 53 customers which is 35 percent of customers from Kerala invested full amounts in income generating activities. The alarming fact is that new age bank and MFI did not investigate this matter although they know the full amount was not being invested in income generating activity. The diversion of funds impacted on the return rate of income generation activity and is an important factor behind the failure of microfinance programmes to produce sustainable development.

**Interests rates**

There is a level of support for the view that Microfinance providers should charge interest rates so that the lending programmes can become sustainable (Adams and Von Pischke, 1992, Yaron, 1992). However, other researchers observe that after the introduction of Microfinance in India, there was an upward shift in the interest rates charged by formal institutions to rural borrowers.

On the question of interest rate, 273 customers out of a total of 288 believed that they were charged 10 percent to 20 percent by MFI. This is a large difference; a more accurate estimate on interest rate could be made by comparing the responses from different managers in the interviews that were conducted.

Table 5 interest rate charged by various banks

<table>
<thead>
<tr>
<th>Manager</th>
<th>Field Manager Tamilnadu</th>
<th>Field Manager Kerala</th>
<th>Senior Manager MFI</th>
<th>Managing Director MFI</th>
<th>New Age Bank Manager 1</th>
<th>New Age Bank Manager 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate</td>
<td>18%</td>
<td>18%</td>
<td>18%</td>
<td>15%</td>
<td>12%</td>
<td>12%</td>
</tr>
</tbody>
</table>
It is very strange to note that customers of microfinance in Tamilnadu receive loans from other sources at rates much less than that for microfinance (eg. through Church related organisations). This raises a pertinent question: Why should customers avail themselves of microfinance at all? There may be two reasons for this anomaly. The quantum of loans that could be provided by other charitable organisations are limited and there are strict checks and conditions to be satisfied when loans are sanctioned. The other reason is that the customers of microfinance in Tamilnadu may want to take advantage of the support given by the MFI in starting new income generating ventures. In the case of Kerala, 43 customers out of 113 paid more than 20 percent interest rate for their old loans taken from other providers. For them, microfinance was a better deal.

Return from income generation activities
A total of 243 customers, 141 from Tamilnadu and 102 from Kerala, got a return of less than 20 percent from their income generating activity, representing around 81 percent of the customers. Only 25 customers were able to get a return of more than 25 percent. This is only 8.3 percent of the total customers. This is a startling figure; it suggests that microfinance provided to customers of new age banks in the States of Kerala and Tamilnadu may not lead to sustainable development. The interest rate charged by MFI was between 15 percent and 18 percent, and the return rate from income generation activities of the majority of customers was less than 20 percent. Thus customers were getting a very low net return rate probably lower than the interest rate of the microfinance, and income generation is in the negative.

Operating Cost
Research has revealed that MFIs face many challenges in finding ways to reduce lending costs. While the cost of funds, default costs and transaction costs contribute to the total cost of lending in any sector, in the Microfinance sector transaction costs have been identified as being an important contributor to lending costs (Goodwin-Groen, 2003). The major reason behind this is the average loan size, which is quite small, and the number loans granted, which are very high (Roseberg, 2002). All the managers interviewed expressed a view that high operating cost had had an impact on the sustainability of the programmes.

Managerial Implications
The Reserve Bank of India has always followed a policy of encouraging microfinance. It has never put any stringent conditions on institutions that have acted as intermediaries. Microfinance institutions, other than cooperatives and non-banking institutions, are allowed savings mobilisation. Institutions dealing with microfinance are given a lot of freedom regarding interest rates. Thus banks and other institutions involved in microfinance have a lot of freedom in their microfinance activities. It is probably this freedom that has made the institutions lax in their monitoring of the schemes. The RBI’s intention in allowing such freedom is to avoid bottlenecks in the execution of the schemes. However, lack of monitoring has made the providers act as mere money lenders. As is evident from the survey, massive diversion of funds by consumers from microfinance schemes to private consumption has made the schemes ineffective. This needs to be stopped. As a regulator the RBI should put more stringent verification on the utilisation of schemes without choking the flow of funds.

Consumers of microfinance need training in management, marketing, hygiene and human resource management. These could be easily provided if there was some will on the part of banks. New age banks are big institutions with huge net profits. Their management is well aware of the benefits of improving the lifestyles of their clients and the additional business these people could bring in the future. These potential future benefits may well outweigh the
costs incurred. Undue emphasis on short term profit is the real cause for the failure of microfinance.

Another major problem that faces banks is the dearth of motivated staff to run the schemes efficiently in rural areas. This seems to be a lame excuse. There are hundreds of institutions that operate in rural areas. Recruiting special staff to work in rural areas and giving them intensive training would solve this problem.

**Conclusion**

On overall analysis on the issue of sustainability, the following conclusions can be drawn. Awareness, Affordability and Acceptability of the loans are the major contributors which affects the sustainability of the programs. Availability seems to have little effect on the sustainability. All consumers are unanimous in their opinion that their business programmes are not self-sustainable. For most of them, present consumption appears to be the most important thing. Here, the short term goals of the providers and the consumers come together. This shows the lack of long term goals. Unless short term goals and long term goals merge, sustainability will be a problem. Only 34.5 percent of the total respondents from Tamilnadu and Kerala invested full amounts in income generating activities. A hundred and ninety two respondents admitted that they had debts to pay or had personal expenses that could not be postponed. This supports the view of researchers like Hulme (2007) that the diversion of funds is a reason why micro enterprises fail to achieve sustainability. This could be attributed due to the lack of Awareness from the part of the customers on the true objective of this loan. Financial institutions particularly the ones offering microfinance under CSR has an inherent responsibility to make sure the consumers are fully aware of the consequences. It requires intervention from higher levels to remedy the situation. Vision and mission are formulated at the highest levels of management. It is highly suspect how far these ideals have percolated to the lower levels.

The reason for the callous approach from the banks could be because microfinance is a viable investment with repayment rate more than 90%. By introducing an MFI which acts as a link between the bank and the customers, the financial institutions could wash their hands off on CSR aspect and at the same time try to get benefits of legitimacy. In fact by providing loans to poor people they are getting a good return rate in the investment. Consumers are availing themselves of loans to divert them for other uses. They are paying back the loans not from business income generated. They are content to get loans as the alternative is the money lender who charges even higher interest rate. As the loans are not generating income the consumers of microfinance are getting deeper into poverty. The bank seems to be aware of this however they do little to prevent the diversion of loans to other purposes. Fortunately or unfortunately the consumers seems to know this. That might be the reason why the consumers do not believe in the sustainability of the programmes to any appreciable measure.

The literature on microfinance identifies high interest rates as one of the reasons behind the failure of microfinance in meeting its objectives. This could lead to customers taking more loans to repay loans and ending in a circle of debt (Snow and Buss, 2002). These reasons have implication on the Affordability of the microfinance program. The result of the study indicates that, the major reasons being lack of affordability of the loans are high interest rates, which contributes to the lack of sustainability. Eighty-four percent of customers surveyed felt that the interest rate charged by MFIs was excessive. These findings support the argument that the excessive interest rates charged by MFIs is the major contributor to enterprises not
achieving sustainability (Hassan, 2002, Chavan and Ramakumar 2004). Therefore the legitimacy claims of the banks have little basis. Microfinance has proved that it is an acceptable tool in alleviating poverty. Significant reduction of poverty in countries like Bangladesh could be attributed to microfinance programs. However the results of this study indicate that Beneficiaries of microfinance have not accepted the claims made by the banks and MFIs. They do not believe that the schemes are going to make them move above the poverty line. The condition of acceptability is totally lacking.

Conclusions made about do not in any way diminish the importance of microfinance. Microfinance as a business venture has always been successful wherever it was attempted. It is a regulated financial industry in most of the countries and has done lot to involve the poor in small scale business ventures. There are even public limited companies providing microfinance in India. Microfinance has saved the poor from the shackles of money sharks. Even self help groups have started their microfinance activities with their own share capital. This has made the SHGs small scale venture capitalists.

Possible limitations of the study
A country like India has different subcultures within different States. The customers may vary in different aspects within the States in India (for example, different dialects, religion, and castes). The sample selected for this study may not be representative of the State culture. The information which determines the attributions (experiences) and satisfaction of the respondents is collected only once. This study does not account for any changes over time in the populations or their interest. Whilst there are a few commercial banks engaged in microfinance the information collected is from the customers of only two commercial banks. The bank selection is based on two important criteria. First, if the mode of operation fits into the definition of new age bank, and the second is based on the degree of microfinance activities that they are engaged in the states of Kerala and Tamilnadu.

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The Impact of FDI on Labor Productivity in Selected Developing Countries

Abstract

This paper investigates the relationship between FDI and labor productivity in the period 2004-2010 using panel data for 11 developing countries. The results show that FDI and the degree of economic openness a significant positive effect on labor productivity, so that an increase of 1 percent of its value, labor productivity, respectively, 0.04 and 0.03 percent increase. Also, the positive impact of research and development expenditure and inflation have a negative impact on labor productivity.

Keywords: FDI, labor productivity, panel data

Introduction

Foreign direct investment is a process by which a country (country of origin), ownership of assets in another country (host country) to control the production, distribution, and obtains other activities. FDI as an investment involving a long-term relationship reflecting an economic entity in the host country’s control. Long term represents the differentiation of other investments such as FDI is portfolio investment, so that investment portfolio, reflecting the maintenance of securities such as foreign stocks, bonds and financial assets that it will not make any the holder of the securities, the issuer of securities firms have management control. Short-term investments portfolio it represents a significant investment and many times the portfolio to be achieved (Taghavi and Rezaee, 2010:19). FDI is Important factor in economic development, eliminate gaps savings and investment, technology transfer, technical, and managerial jobs are the new ways. Now attracting FDI as one of the most important economic variables in most countries is considered. Given the important role of FDI, countries are trying to attract this type of investment. The global market attracted capital, is very competitive. The competition, especially among developing countries due to lack of financial resources necessary to achieve rapid development and more. These countries are looking to attract different types of investors in order to attract this type of investment in various arrangements to apply. Therefore, accelerate the entry of foreign investment, to mutual benefits for host countries and international investors will follow. Benefits of FDI can be obtained directly from the three domestic labor, domestic consumer and government awarded. Also, insufficient internal resources for capital accumulation and the need for technology and technical knowledge in countries trying to attract FDI serious approach to this problem is creating. On the other hand countries with low-power internal resources, cannot export expansion and acquisition of new markets and the need for sustainable resources to
meet their demands in the economic strategy of attracting FDI. After the required development, manufacturing, and more jobs, more investment is increasing. This requires more attention to FDI and its impact on the economy of these countries over the past reveals. Therefore, this study is trying to examine effects of FDI on labor productivity in selected developing countries.

**Theoretical Background**

Owing to the technology and know-how embodied in FDI, alongside the sheer foreign capital, host economies are expected to potentially benefit from these investments through knowledge spillovers. These spillovers can occur through various channels such as technology transfers, introduction of new processes and managerial skills to the domestic market, where further productivity gains can be realised via backward and forward linkages between foreign and domestic firms. Alongside these technological improvements FDI can simply contribute to capital accumulation. The foreign capital injected into the host economy could contribute to physical capital formation, while employee training can contribute to skill development in the country. In other words, FDI can contribute to the development effort of a country via factor accumulation – physical and human capital – or via improvements in total factor productivity (TFP). However, the empirical evidence shows that neither of these benefits can be presumed (Alfaro and others, 2009: 113). According to trade theory FDI inflows to improve resource allocation and thereby increase labor productivity and employment lead host countries. This theory states that labor productivity effects of FDI can occur in two ways. The first method is directly employed by foreign companies operating in host countries will be affected. But the second channel to improve allocation of FDI on employment generation and indirectly affect host countries. In the process of the activities of foreign firms in host countries and overflows of technology and investment companies domestic firms in the host country the main factors determining the effects of FDI on employment in these countries (Mahdavi and Azizmohammadlou, 2004: 72). Direct effect of FDI on employment is due to the activity of foreign companies are chosen, because these companies investments are active in areas that could benefit from the comparative advantage of local labor host countries. Thereby increasing the demand for labor and employment situation improves. But when FDI is associated with the integration of production units, for optimizing the operation of the development activities of manufacturing firms may reduce employment (William, 1999: 395). The same will happen when the FDI flows to countries exporting companies to improve the lead investor. This has reduced the market share of domestic firms and thus leads to a decrease in employment in these companies. Despite these indirect effects, FDI and capital accumulation that leads to a focus that includes better technology and management systems are more advanced. Also FDI can also benefit from the knowledge and skills required to host countries. The result of such a process to improve labor productivity and optimal allocation of resources through the transfer of resources from inefficient sectors of activities and efficient operations and ultimately improve host country employment (Mahdavi and Azizmohammadlou, 2004: 74).

**Previous Empirical Literature**

Dimelisa and Papaioannou (2010) in a study to assess the effects of foreign direct investment and ICT growth productivity in 42 developed and developing countries using panel data models in the period 1993-2001. The results show FDI and on productivity growth have positive and significant effects. Contessi and Weinberger (2009) study to study the effects of FDI on productivity, and country growth. There is evidence of a positive relationship between foreign direct investment and national growth.
Alfaro and others (2009) Research on the relationship between FDI and Productivity In the period 1975-1995 for 62 selected countries using panel data. Results indicate a significant positive relationship between productivity and foreign direct investment there.

Chaitanya (2009) to examine the Impact of Foreign Direct Investments on Industrial Productivity in India using pooled regression analysis with fixed effects for the period 2002 –2005. The results showed foreign investments have significant positive effect on productivity of domestic firms.

Liu (2008) argues that there are two effects from FDI: negative level effect which is seen as decline in firm productivity and positive rate effect where FDI increases the long-term productivity growth rate. Chinese manufacturing firm level analysis back these two effects. Bwalya (2006) finds positive significant effect from FDI firms to their suppliers and buyers with Zambian firm level data. There is also strong evidence on vertical technology spillovers in Canadian manufacturing.

Vahter (2004) studies the effects of foreign direct investment on labour productivity in manufacturing industries of two transition countries, Estonia and Slovenia. The study is based on firm-level panel data in the period 1998-2002. The findings show that different types of foreign direct investment can have different effects on the host country and that the existence of positive spillovers may depend on the level of economic development of the host country. Javorcik (2004) reports that FDI increases productivity of Lithuanian firms in the upstream sectors which supply to the foreign affiliates. But the positive spillovers from FDI come from partially owned foreign firms as opposed to fully owned ones, since the partially owned FDI firms engage in more outsourcing activities.

Liu and Others (2001) reviews impact FDI on labor productivity in the Chinese electronics Industry In 41 sectors in the period 1996-1997. The econometric results suggest that foreign presence in the industry is associated with higher labor productivity.

**Research Method and introduce the model and variables**

**Panel Data**

Panel data is data from a (usually small) number of observations over time on a (usually large) number of cross-sectional units like individuals, households, firms, or governments. In other words panel data analysis is a method of studying a particular subject within multiple sites, periodically observed over a defined time frame. With repeated observations of enough cross-sections, panel analysis permits the researcher to study the dynamics of change with short time series. The combination of time series with cross sections can enhance the quality and quantity of data in ways that would be impossible using only one of these two dimensions (Gujarati, 2003). Some more advantages of panel data as given in ‘Basic Econometrics’ by Gujarati are:

Since panel data relate to individuals, firms, states, countries, etc over time, there is bound to be heterogeneity in these units. The techniques of panel data estimation can take such heterogeneity explicitly into account by allowing for individual-specific variables.

By studying the repeated cross section of observations, panel data are better suited to study the dynamics of change.

Panel data can better detect and measure effects that simply cannot be observed in pure cross-section or pure time series data.
By making data available for several thousand units, panel data can minimize the bias that might result if we aggregate individuals or firms into broad aggregates.

**Panel Data Regression**

Panel data analysis endows regression analysis with both a spatial and temporal dimension. The spatial dimension pertains to a set of cross-sectional units of observation. These could be countries, states, counties, firms, commodities, groups of people, or even individuals. The temporal dimension pertains to periodic observations of a set of variables characterizing these cross-sectional units over a particular time span. There are several types of panel data analytic models. There are constant coefficients models, fixed effects models, and random effects models etc.

The Constant Coefficients Model has constant coefficients, referring to both intercepts and slopes. In the event that there is neither significant country nor significant temporal effects, we could pool all of the data and run an ordinary least squares regression model. This model is also called the pooled regression model.

The Fixed Effects Model would have constant slopes but intercepts that differ according to the cross-sectional (group) unit—for example, the country. Although there are no significant temporal effects, there are significant differences among countries in this type of model. While the intercept is cross-section (group) specific and in this case differs from country to country, it may or may not differ over time.

The Random Effects Model assumes a regression with a random constant term (Greene, 2003). One way to handle the ignorance or error is to assume that the intercept is a random outcome variable. The random outcome is a function of a mean value plus a random error. But this cross-sectional specific error term which indicates the deviation from the constant of the cross-sectional unit must be uncorrelated with the errors of the variables. Since our objective is to investigate the impact of FDI on labor productivity using panel data analysis; first of all we made a panel data consisting of FDI and labor productivity of concerned selected developing countries using Eviews 7.

**Data and Variables**

The study population consisted of 10 developing countries, Brazil, China, Colombia, Indonesia, India, Mexico, Malaysia, Thailand, Ukraine and Uruguay respectively. Period is used 2004-2010. Time series data from these countries have been collected from WDI 2012. The model presented in this research paper inspired by Tanna (2008) is as follows:

\[
\text{LPROD}_i = \beta_0 + \beta_1 \text{L(FDI)}_i + \beta_2 \text{L(OPEN)}_i + \beta_3 \text{L(R&F)}_i + \beta_4 \text{L(CPI)}_i + \eta_i
\]

- \( \text{LPROD}_i \): Logarithm of labor productivity of country \( i \)
- \( \text{LFDI}_i \): Logarithm of foreign direct investment in dollars for country \( i \)
- \( \text{LOPEN}_i \): Logarithm of the degree of economic openness (the ratio of the sum of exports and imports to GDP) as a percentage of GDP for country \( i \)
- \( \text{LR&F}_i \): Logarithm of research and development expenditure in dollars for country \( i \)
- \( \text{LCPI}_i \): Logarithm of inflation of country \( i \)

**Empirical Analysis**

*Results of F-Lymr and Housemantest*
Table 1 shows that the value of F test statistic using fixed effects would be more appropriate. Houseman also test statistic indicates the suitability of the method for estimating the random effects model.

Table 1: Results of F- Lymr and Houseman test of the estimated model

<table>
<thead>
<tr>
<th>Test</th>
<th>F-Lymr Test</th>
<th>Houseman Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statistics</td>
<td>45/79</td>
<td>2/39</td>
</tr>
<tr>
<td>Prob</td>
<td>0/0000</td>
<td>0/7915</td>
</tr>
</tbody>
</table>

Reference: Results

The estimation results

Accordingly, the results of model estimation is introduced to determine the effect of foreign direct investment on labor productivity using a random effects panel data are presented in Table 2. It is due to the logarithmic nature of the model, the coefficients of variables are expressed traction.

Table 2: Results of estimating the effect of FDI on labor productivity

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>StatisticsT</th>
<th>Prob</th>
</tr>
</thead>
<tbody>
<tr>
<td>LFDI</td>
<td>0/0458</td>
<td>7/7409</td>
<td>0/0000</td>
</tr>
<tr>
<td>LOPEN</td>
<td>0/0315</td>
<td>16/8326</td>
<td>0/0000</td>
</tr>
<tr>
<td>D&amp; LR</td>
<td>0/0118</td>
<td>9/0659</td>
<td>0/0000</td>
</tr>
<tr>
<td>LCPI</td>
<td>-0/0145</td>
<td>-2/7153</td>
<td>0/0071</td>
</tr>
<tr>
<td>$R^2 = 0/6625$</td>
<td>$R^2 = 0/6573$</td>
<td>D-W =2/02</td>
<td></td>
</tr>
</tbody>
</table>

Results

The results show that all the coefficients of the variables using a random effects model was statistically significant and have the theoretically expected signs. FDI, degree of economic openness and research and development expenditure have a positive effect and inflation negative effect on labor productivity during the period under study were selected developing countries. As you can see, with a 1% increase in variable FDI, labor productivity rate of 0/04% increase. Effects of FDI on labor productivity in the countries on the one hand to an appropriate degree of development and the ready substrates in these countries On the other hand the share of FDI in these countries depends on financial need. Therefore we can say that the more developed a country the size of substrates and conditions for foreign investment and technology transfer requirements that may be provided, FDI can have more power to affect the productivity of its workforce. Elasticity degree of economic openness to 0/03, which indicates that a 1% increase in this variable, labor productivity increased by 0/03 percent increase. Degree of economic openness, more competition in the manufacturing sector, which increases the impact on employment and labor productivity affects. Research and development expenditure is also positive and significant effect on labor productivity, so that a 1 percent increase in research and development expenditure, labor productivity 0/01 percent increase. Finally, the tension varies inversely with inflation represents a useful labor productivity, so that would be expected with an increase of 1% in inflation, labor productivity0/01 percent decrease.$R^2$ estimated by the model is equal to 0/66.In their model the correlation is not observed, because Durbin Watson 2/02 to clarify this issue.

CONCLUSIONS
Developing countries compete to attract foreign direct investment in hopes of bridging the technology gap with advanced nations and spurring economic growth. FDI can be an important source for productivity growth and transformation process in developing countries. In this paper, we examined the effect of FDI on labor productivity. In this study, the effect of FDI on labor productivity for 11 developing countries using a panel data for the period 2004-2010 were studied. The results showed that the effect of FDI on labor productivity is positive and significant. Degree of economic openness has a direct and positive effect on labor productivity in the countries studied. The results indicate that research and development is also positive and significant effect on labor productivity found. However, inflation had a negative effect on labor productivity, so that the inflation rate, labor productivity declined.

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In this paper, we develop the dynamic model to explain the relationship between technology spillover from foreign direct investment (FDI) and productivity growth by using Thailand as a case study. The variables included in the model are productivity, gross domestic product (GDP), GDP per capita, FDI, employment, and gross fixed capital formation. The model is developed using mathematical feedback approach. Comparing the simulation results from the model and the Thailand historical data from 1988 – 2008, the simulation results can trace the change of the empirical data. Therefore, the dynamic model developed in this paper can represent the relationship of studied variables and can be used as a foundation model for policy analysis and strategy formulation.

**Keyword**: Technology spillover; Foreign direct investment; Productivity growth; Dynamic model

**Introduction**

Foreign Direct Investment (FDI) is the physical investment of the multinational companies (MNCs) on the host countries. FDI plays a significant role in stimulating the economy of the host countries, especially when FDI flows into the developing countries (Samii & Teekasap, 2010). When investing in the developing countries, the MNCs usually provide more jobs with higher compensation to local workers than the local companies (Bandick, 2004; Conyon, Girma, Thompson, & Wright, 2002; Fu & Balasubramanyam, 2005; Girma & Görg, 2007; Heyman, Sjöholm, & Tingvall, 2007; Lipsey & Sjöholm, 2004; Martins, 2004; McDonald, Tüselmann, & Heise, 2002; Williams, 1999).

When investing in other countries, MNCs also bring in the advanced technology and operational practices from the home country to their local subsidiaries. This advanced technology and operational practice can be transferred to the local firms in the same industry, which result in an improvement of the overall production output of the host countries (Baranson, 1970; Contractor & Sagafi-Nejad, 1981). In addition, the presence of MNCs can also improve the productivity of the domestic firms in related industries even though there is no direct interaction between these firms and the MNCs, which also enhance the welfare of the host countries (Sawada, 2010). This phenomenon is called “technology spillover.”

Technology spillover can significantly improve the productivity of the developing countries and also reduce the technological gap between the developed countries and developing countries. Therefore, there are many researches being conducted on technology spillover through FDI including the existence of technology spillover (for example, see Blomström and Sjöholm (1999), Chuang and Lin (1999), Liu (2002), and Cheung and Lin (2004)), the determinant of technology spillover through FDI (Blomström & Sjöholm, 1999; Chuang & Lin, 1999; Kohpaiwoon, 2006; Sawada, 2005; Sermcheep, 2006; Wang, 1997), and the effect
of public policy on technology spillover (Bozeman, 2000; Derwisch, Kopainsky, & Henson-Apollonio, 2009; Sawada, 2005; Stoneman & Diederen, 1994). However, most of the research studies focus on the effect of the technology spillover or the determinants of the technology spillover separately due to the methodological limitation. We argue that the effect of the technology spillover and the determinants of the technology spillover should be studied together. This paper proposes that there is a feedback from the technology spillover to the determinants of technology spillover. Therefore, we study the relationship between the technology spillover from FDI and the productivity growth through the model that incorporates the feedback effect from technology spillover to the determinants of the technology spillover.

Besides, most research studies the technology spillover using the static approach. The static approach can provide the overall picture of the relationship, but it cannot illustrate how this relationship develops or changes over time. In many situations, the understanding of the development path is crucial because the relationship is path-dependent which requires a study that can trace the change over time (Arthur, 1994). Therefore, we develop the dynamic model that can illustrate the change of this relation over time.

The developed model is tested with the data of Thailand. Thailand has seen significant growth in FDI for many decades, except during the 1997 Asian Financial Crisis. However, Thailand has a limited production capability in many industries such as automotive industry and needs to rely on the technology from foreign firms (Gerdsri, Teekasap, & Virasa, 2012; Intarakumnerd, Gerdsri, & Teekasap, 2012). As a result, Thailand has an opportunity to receive technology spillover from foreign firms. Therefore, Thailand is used as a case study.

This paper is structured as follow: first, we discuss on the technology spillover from FDI and the productivity growth. Then, we explain about the variables included in the model and the relationship of each variable in the model. Next, the model validation is conducted. Lastly, we explain how the model can be utilized further.

**Technology Spillover from FDI**

The technology spillover is the improvement of the productivity of local firms when the MNCs invested in that country. This spillover effect is hard to measure so there are many previous research studies on whether the technology spillover exists or not by focusing on the relationship between the degree of the foreign investment and the productivity and the productivity growth of local firms. The results from the studies in different industries in Taiwan, Indonesia, China, and Thailand found that the presence of MNCs can significantly improve the productivity of the local firms (Blomström & Sjöholm, 1999; Cheung & Lin, 2004; Chuang & Lin, 1999; Liu, 2002; Teekasap, 2010). In addition, the productivity improvement does not limit to the same industry but also expands to other industries (Liu, 2002). Therefore, the technology spillover effect exists.

After the ‘technology spillover’ is proven to be able to improve the productivity of the local firms, the focus of the study shifts to the determinants of technology spillover. The results from many studies show that the degree of technology spillover is depended on the characteristics of the recipient country, industry, domestic firms, and foreign firms. The per capita income, quality of human capital, and the trade openness of the FDI recipient countries positively correlates with the degree of technology spillover (Meyer & Sinani, 2009; Wang, 1997). As for the industry’s characteristics, the technology gap between the local industry and the foreign industry, the productivity of the labor, market size, and the industrial
Country Productivity

The productivity is the average output that each worker can produce in a period of time (OECD, 2008). Therefore, an increase in productivity can directly improve the production of the country, which is generally measured using Gross Domestic Product (GDP). GDP is used to measure the economy of the country, so an improvement in the productivity can drive the country’s economic growth.

Because the productivity is directly related to the economic growth, the studies on the determinants of the productivity have been large in numbers. One of the theories that are widely accepted is the production function. The production function is initially suggested by Cobb and Douglas and further developed by Solow (Cobb & Douglas, 1928; Solow, 1957). The production function suggested that the production depends on the amount of labor, the fixed capital, and the change in production technology.

Research Methodology

In this paper, we develop the dynamic model to explain the relationship between the technology spillover from FDI and the productivity growth by using system dynamics approach. System dynamics modeling is the approach to simulate the problem by combining the engineering’s feedback control system and the mathematical simulation (Sterman, 2000). This method is appropriate for our research because System dynamics allow us to analyze the situation that there is a feedback from technology spillover to the determinants of the technology spillover. Besides, the simulation done by using System dynamics approach can provide the time-series results, which allow us to observe the dynamics of the relationship between the technology spillover and the productivity over time.

Technology Spillover and Productivity Growth Model

From Cobb-Douglas production function, the production \( P \) is the function of labor \( L \) and fixed capital \( K \) (Cobb & Douglas, 1928). The productivity is the production per labor. Therefore, the productivity \( p \) is the function of fixed capital per labor \( k \).

\[
P = F(K, L) \tag{1}
\]

\[
p = f(k) \tag{2}
\]

However, Cobb-Douglas production function does not include the technological change that increases the productivity even though the fixed capital does not change. The technological change is incorporated into the model by Solow (1957) as a multiplicative factor \( A \) that is the function of time \( t \). The multiplicative function is the exponential function.

\[
p = A(t)f(k) \tag{3}
\]

\[
p = \beta_0 k^{\beta_1} \beta_2 e^t \tag{4}
\]

From the literature review, the technology gap between the foreign firms and local firms affect the level of technology spillover, which affects the productivity of the local firms (Kohpaiboon, 2006; Meyer & Sinani, 2009; Sawada, 2010). The technology in this paper...
refers to the production technology. Therefore, higher technology can be measured through higher productivity. As a result, we add the productivity gap $\Lambda$, which is the difference between the productivity of foreign firms $p_F$ and the productivity of local firms $p$, into the Cobb-Douglas production function. The variable is subscripted by $t$ denoting that the values of those variables change over time.

$$p_{t+1} = \beta_0 k_t^{\beta_1} \beta_2 e^{\Lambda_t} \beta_3 e^t$$  \hspace{1cm} (5)$$

$$\Lambda_t = p_F - p_t$$  \hspace{1cm} (6)$$

The aforementioned relationship can be illustrated using the stock and flow diagram as shown in Figure 1. From the diagram, there is a positive loop from the productivity $p$ to the productivity gap $\Lambda$ and the multiplicative factor $A$. The positive loop shows that the productivity will continuously improve until the productivity gap is reduced to zero.

![Figure 1 The productivity of the country](image)

The fixed capital per employment $k$ is the value of fixed capital $K$ per employment $L$. The annual change in the fixed capital is called Gross Fixed Capital Formation ($G$). The change in the fixed capital can arise from both local investment $G_L$ and foreign investment $G_F$. The stock and flow diagram illustrated the abovementioned relationship is shown in Figure 2.

$$k_t = K_t / L_t$$  \hspace{1cm} (7)$$

$$K_{t+1} = K_t + G_t$$  \hspace{1cm} (8)$$

$$G_t = G_{Lt} + G_{Ft}$$  \hspace{1cm} (9)$$
Figure 2 - Fixed capital

The productivity $p$ is the production per employment. Therefore, we can calculate the real gross domestic product $Y$ from the productivity and the employment. The real GDP per capital $y$ is the real GDP divided by population $N$. Higher GDP per capita shows that it is a market opportunity for foreign firms (Dunning, 2001). Therefore, higher GDP per capital will attract more FDI. The portion of the total investment $r_F$ will flow into the fixed capital $G_F$. We assume that the fixed capital investment ratio $r_F$ is constant. The explained relationship is illustrated in Figure 3.

$$Y_t = p_t \times L_t$$
$$y_t = Y_t / N_t$$
$$FDI_t = b_0 + b_1 y_t$$
$$G_F = r_F \times FDI_t$$

In Figure 3, there is a positive loop from the productivity $p$ to GDP per capital $y$ and fixed capital $K$. It shows that all variables in the loop increase continuously. Higher productivity will increase the GDP per capita, which then induces higher FDI. More FDI will result in more fixed capital investment, which in turn increases the productivity of the country.
The level of employment changes according to different factors. One factor is the amount of unemployment. The employment rate will increase when the unemployed people are hired. Therefore, one constraint of the hiring rate $h$ is the amount of unemployed people $U$, as shown in Figure 4.

\[
L_{t+1} = L_t + h_t \tag{14}
\]
\[
U_{t+1} = U_t - h_t \tag{15}
\]
Figure 4 Hiring rate

The hiring rate not only depends on the amount of employment, but also depends on the job offering by the local and foreign firms. The hiring rate of the foreign firms $h_F$ varies according to the level of FDI and the hiring rate of local firms $h_L$ depends on the local investment $I$. The change in real GDP $Y$ shows the growth of the domestic production. We assume that the GDP growth reflects the local investment. The portion of the investment will be put in the fixed capital $r_L$. From all explained relationship, the complete model is shown in Figure 5.

\[
    h_t = \min(h_{Lt} + h_{Ft}, U_t) \tag{16}
\]
\[
    h_{Ft} = FDI_t \times e_F \tag{17}
\]
\[
    h_{Lt} = I_t \times e_L \tag{18}
\]
\[
    (I_{t+1} - I_t)/I_t = (Y_{t+1} - Y_t)/Y_t \tag{19}
\]
\[
    G_{Lt} = I_t \times r_L \tag{20}
\]

Given $e_F$ is the ratio of additional required workers per one unit of FDI and $e_L$ is the ratio of additional required workers per one unit of local investment.
Model Validation

The model was validated by comparing the results of the model after parameterization with the empirical data. The $R^2$ is used to measure how well the results from the model can trace the change of the actual data. Thailand is used as a case study to validate the model. The data on real GDP, GDP per capita, FDI, Gross Fixed Capital Formation (GFCF), and Employment of Thailand from 1988 to 2008 is collected due to the data limitation at the time of the study. The data on real GDP and GDP per capita was acquired from Economist Intelligence Unit and the data on FDI, Gross Fixed Capital Formation, and employment was collected from IMF International Financial Statistics.

Table 1 presents the fit of the results produced by the parameterized model and the empirical data. The data was shown using $R^2$ and also the graph. The solid line “1” in the graph represents the empirical data and dotted line “2” represents the results from the model. The comparison shows that the model can trace the change of the actual data.

Conclusion and Implication

This paper develops the dynamic model to explain the relationship between technology spillover from FDI and the productivity growth. The variables studied in the model consist of the country productivity, GDP, GDP per capita, employment, FDI, and GFCF. The model shows that all variables are interrelated to each other in a feedback loop pattern. The model is validated using Thailand data and the results show that the model can significantly trace the change of the empirical data. Therefore, it indicates that the feedback model developed in this paper can explain the relationship of the included variables.

This model can be used by scholars and practitioners who work on the relationship between technology spillover, productivity, economy, and FDI. This model can be further developed to examine the effect of particular policies on the economy and FDI of the developing
countries. In addition, the firms can utilize this model to analyze the effect of the strategy in the short-run and long-run.

Table 1 Comparison of the results produced by the model and the empirical data

<table>
<thead>
<tr>
<th>Variable</th>
<th>$R^2$</th>
<th>Graph</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>0.93</td>
<td><img src="image1" alt="Real GDP graph" /></td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.90</td>
<td><img src="image2" alt="GDP per capita graph" /></td>
</tr>
<tr>
<td>FDI</td>
<td>0.74</td>
<td><img src="image3" alt="FDI graph" /></td>
</tr>
<tr>
<td>GFCF</td>
<td>0.44</td>
<td><img src="image4" alt="GFCF graph" /></td>
</tr>
</tbody>
</table>
Note: The solid line “1” represents the empirical data and the dotted line “2” represents the simulation result.

References


Effect Of Sector Lending To Micro, Small And Medium Of Papua Bank Financial Performance In The Special Autonomy In Papua

Abstract
This study aims to determine the significance of the impact on the credit of Micro, Small and Medium Enterprises (MSME) to the financial performance of banking. The research was conducted in the province of Papua, using secondary data and primary data. The analysis model used is the *Structural Equation Model* (SEM). The results and analysis of the data concluded that: 1) Credit micro, small and medium enterprises significantly influence the financial performance of the Bank of Papua; 2) credit Kollektibiltas significant effect on the performance of the Bank of Papua; 3) Micro, small and medium enterprises significantly influence credit collectivity the performance of the Bank of Papua.

**Keywords:** Credit, Micro, Small and Medium Enterprises, Financial Banking.

Introduction
People's Economic Activities in the form of Micro, Small and Medium Enterprises (MSME) have been shown to survive in the crisis that has plagued our country several times (Rante, 2012) and (Sharif, 2001). This can happen because MSME not too dependent on external factors, such as the use of imported raw materials and does not use foreign currency in doing business. (Deliarnov, 2012) Instead, many using local raw materials, and marketing domestically oriented and has a price that is affordable to local consumers.

Economic populist in the SME sector (Sarwoko, 2005), plays an important role in improving the local economy and even national. With these considerations, it is one of the strategies in the economic recovery in times of crisis or a period of strong economic development is to empower MSME (Erman, 2002).

The government plays an important role in empowering MSME that can not be separated handling obstacles in its path empowerment, among others, limited capital and marketing of their businesses. The role of the government to provide funding / loans small / micro and provides access to raw materials and marketing efforts for the MSME entrepreneurs (Adler, 2008).

The role of government in meeting the capital needs of MSME (Mike Golberg, 2011), one of the banks involved in the provision of credit facilities. With the hope of encouraging the development of MSME, but on the other hand feared the ability to repay the loan by MSME
when experiencing barriers will affect the performance of the banks that have been given capital and business development.

In this study, the goal will be achieved. Knowing and analyzing the significance of the effect of credit on the MSME sector on the return of credit and bank performance in the Papua Special Autonomy (Special Autonomy) in the province of Papua. In the hope that the benefits of this research as information material to the government and banking institutions to channel loans to MSME (Solehuddin, 2012). Besides the benefits to be gained can contribute to the development of theory in the MSME sector.

**Literature Review**

**Banking Credit**

Definition of Credit is a provision of cash or equivalent claims to it, based on an agreement in terms of lending between banks and borrowers to borrow some money, and then requires the borrower to repay the debt after a certain period of time to be a flower.

In lending, the banks have some standard requirements, among others: 1) licensing and legality; 2) character; 3) experience and management, 4) technical skills, 5) marketing; 6) social; 7) finance, and 8) collateral. According to Bank Indonesia, the banks have to make loans based on the classification of the level of credit financing, among others: current, special mention, substandard, doubtful and loss. Mortgage financing is based on factors such as: punctuality, principal and interest payment amount, time period is over or not, the assessment ability and willingness meluansi debtor obligations under the credit agreement are agreed.

Table 1. Credit Collectibility PT. Regional Development Bank of Papua Quarter II (two) Year 2012

<table>
<thead>
<tr>
<th>No</th>
<th>Classification</th>
<th>Value</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Smooth</td>
<td>6,160,660</td>
<td>96,35</td>
</tr>
<tr>
<td>2</td>
<td>Special Mention (DPK)</td>
<td>169,279</td>
<td>2,65</td>
</tr>
<tr>
<td>3</td>
<td>Substandard</td>
<td>8,303</td>
<td>0,13</td>
</tr>
<tr>
<td>4</td>
<td>Doubtful</td>
<td>16,576</td>
<td>0,26</td>
</tr>
<tr>
<td>5</td>
<td>Jammed</td>
<td>39,398</td>
<td>0,62</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>6,394,217</td>
<td>100</td>
</tr>
</tbody>
</table>

Sources: Data Report on Realization of Bank of Papua in 2012

**Credit MSME**

Bank Indonesia took a policy that providing small businesses and the activities of the cooperative is to require banks to extend credit to their own funds of at least 20% of the bank’s total loan portfolio to small entrepreneurs in the form of Small Business Credit (KUK). Another effort is to develop a financial institution in accordance with the needs of small businesses and cooperatives.

According to the Policy Package May 29, 1993 and supported by the Board of Directors of Bank Indonesia Decree No. 26/24/Kep/Dir dated May 29, 1993, which is a credit to micro, small and medium enterprises are loans given to customers of micro, small, and medium enterprises with a minimum credit limit of USD 5 million and a maximum of Rp 5 billion to finance productive enterprises. Productive enterprise is a business that can provide added
value in producing goods and services. Credit can be the investment credit and working capital credit. Micro, small and medium enterprises are businesses with a maximum total assets of USD 600 million, excluding land and collateral assigned. The loans to small business customers with a credit limit of up to Rp 25 million is usually regarded as loans to micro-enterprises.

Designated credit to micro, small and medium enterprises represent loans with characteristics that are different from corporate business credit. At this time, a bank has the experience and commitment to provide credit to micro, small and medium enterprises are Rural Bank and some commercial banks only. Characteristics of credit to micro and small enterprises in general are: 1) require collateral delivery requirements are more lenient, 2) require a special method of credit monitoring, and 3) likely to give rise to a credit service charge relatively higher; 4) requires credit approval requirements simpler.

Characteristics of micro, small and medium enterprises as mentioned above is a higher degree of risk, so that certain banks tend to be in no mood for this kind of lending, which can be used as a reference solution, perhaps for the monetary authorities or the government or the bank or the debtor himself, is seeking cooperation credit goes to the micro, small and medium enterprises. The bank can work with other financial institutions in lending like this. With this partnership the expected level of lending to micro and small enterprises, the larger and spacious. Such cooperation can also be done by banks and other commercial banks, rural credit bank or other financial institution.

Loan Collectibility

In accordance with the quantitative considerations in the Circular Letter of Bank Indonesia No.7/3/DPNP Date January 31, 2005 to all commercial banks conducting business in Indonesia conventional assessment regarding asset quality of commercial banks, the credit quality classified as current, special, substandard, doubtful and loss according to the following criteria: 1) prospects (should also consider the debtor's effort to conserve the environment), 2) performance (performance) the debtor, and 3) the ability to pay.

Bank Indonesia on the circular states that:

In the economic conditions in each region in Indonesia is very diverse, it is necessary to establish a special treatment that is lighter in credit assessment and provision of funds (such as the opening of the issuance of guarantees or letters of credit) to borrowers with certain allocation operations area. These measures also need to be provided to encourage the growth of the regional economy.

One of the efforts to minimize potential losses from troubled borrowers, banks can restructure loans to borrowers who still have business prospects and ability to pay. With the restructuring of the debtor's credit can expect continuity terpeliahara well. In connection with that loan restructuring needs to be done with due regard to the principle of prudential and accounting principles given moment.

Banking Performance

In the assessment of the performance of the Bank of Papua in this study with more emphasis on aspects of financial performance. (According to Herry Darwanto, 2002), stated that the banks can achieve high levels of productivity on an ongoing basis), therefore, a measure of bank performance are: 1) liquidity, 2) solvency and 3) profitability.
Table 2. MSME Credit Disbursement PT. Regional Development Bank of Papua Quarter II (two) year 2012

<table>
<thead>
<tr>
<th>No</th>
<th>Product Type</th>
<th>Planning</th>
<th>Realization</th>
<th>%</th>
<th>Ket.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Micro Business</td>
<td>108,188</td>
<td>186,386</td>
<td>172.28</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Small Business</td>
<td>420,148</td>
<td>2,821,071</td>
<td>671.45</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Medium Business</td>
<td>3,663,696</td>
<td>1,866,537</td>
<td>50.95</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Jumlah</strong></td>
<td><strong>4,192,033</strong></td>
<td><strong>4,873,994</strong></td>
<td><strong>116.27</strong></td>
<td></td>
</tr>
</tbody>
</table>

Sources: Data Report on Realization of Bank of Papua in 2012

Special Autonomy

Under Law. 21, 2001, on the granting of special autonomy (Special Autonomy) in Papua and the Law on Small and Medium Enterprises (Hadi, 2008) concerning Mirkro Enterprises, Small and Medium Enterprises, one that supports the realization of the policy of Special Autonomy policy is the development of the economy in the economic sector MSME (Mustopadidjaja, 2002), and recap the economic sector SME Credit at Bank of Papua (Papua Bank Business data Year 2012), consisting of: 1) agriculture, labor, and agricultural inputs (for Rp.60.775.000.000,-) 2) mining (for Rp.10.002.000.000, -), 3) manufacturing (for Rp.7.678.000.000, -), 4) electricity, gas, and water (for Rp.1.390.000.000, -), 5) construction (by Rp.78.927.000.000, -), 6) trade, restaurants and hotels (by Rp.142.384.000.000, -); 7) transport, storage and communications (by Rp.29.180.000.000, -); 8) services business (for Rp.43.685.000.000, -); 9) social services / community (for Rp.16.683.000.000, -); 10) miscellaneous (for Rp.178.814.000.000, -). Bank of Papua is a government-owned bank, so the management must follow the standards of financial management in the area, the management needs to be balanced with a new paradigm that can work in a professional manner in order to compete with the private banks are implementing modern banking management system (Marsono, 2004).

Liquidity Ratio Analysis

Definition of Liquidity Ratio Analysis is the analysis carried out on the bank's ability to meet its short-term obligations or liability is due. Some of the liquidity ratio is often used in assessing the performance of a bank are: a) Loan to deposit ratio (LDR of 46.75% with a target of 52.81% so there is a difference of -6%), b) Loan to asset ratio (LAR amounted to 6.54% with a target of 8.70% so there is a difference of -3%).

Rentability Ratio Analysis

Definition of Profitability Ratio Analysis is a tool to analyze or measure the level of business efficiency and profitability achieved by the banks concerned. Moreover, the ratios in this category may also be used to measure bank soundness (Karmila, 2011). The calculation of the profitability ratio is usually sought reciprocity antarpos, contained in the bank's income statement to the balance sheet items in the bank in order to obtain useful indications in assessing the efficiency and profitability of the bank. Ratios Profitability Analysis of a bank are: a) return on assets (ROA of 2.95% with a target of 3.38% so there is a difference of -1%), b) Return on equity (ROE of 23.36% with a target of 21, 21% so there is a difference of +3%).

Solvency Ratio Analysis

Definition of Solvency Ratio analysis is the analysis that is used to measure the bank's ability to meet its long-term obligations or the bank's ability to meet these obligations in the event of
bank liquidity. In addition, this ratio is used to determine the ratio between the volume (amount) of funds obtained from a variety of debt (short and long term) and other sources outside the bank’s own capital to fund investment volumes on various types of assets owned by banks.

Some of the ratios described in this chapter are: a) Capital adequacy ratio (CAR of 23.16% with a target of 20.53% so there is a difference of +3%) b) Debt to equity ratio (DER of 0.22 % with a target of 1.25% so there is a difference of -1%).

Framework concept
In the schematic conceptual framework in this study, can be summarized as shown in Figure 1. Based on the conceptual framework like figure, (According to Besse, 2008) can be arranged Structural Equation Modeling (SEM), namely:

\[ Y = f(X_1, X_2, X_3) \ldots \ldots (1) \]
\[ Z = f(X_1, X_2, X_3, Y) \ldots \ldots (2) \]

So from equation (2) the performance of the banking function (Z) which can be rewritten into:

\[ Z = f(X_1, X_2, X_3, Y) \]

Where: \( X_1 \) = micro credit; \( X_2 \) = small business loans; \( X_3 \) = medium Credit, \( Y \) = level of collectibility; \( Z \) = banking performance.

The next equation is a function of (a system of simultaneous equations), where the models developed are:

\[ Y = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + e_1 \]
\[ Z = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 Y + e_2 \]

Following equation can be written as:

\[ Z = (\beta_0 + \beta_4 \alpha_0) + (\beta_4 \alpha_1 + \beta_1) X_1 + (\beta_4 \alpha_2 + \beta_2) X_2 + (\beta_4 \alpha_3 + \beta_3) X_3 + (\beta_4 e_1 + e_2) \]
Allocation of Total loan disbursement Company's name Micro, Small and Medium Business Capital amounting to Rp. 2,514,232,000,000, - and for the investment of Rp. 1,300,019,000,000, - And for Consumption of Rp. 2,579,966,000,000, -. And then allocated loan disbursement ON Working capital assistance Micro AT by 20% (Rp.502.846.400.000, -), Small Business by 50% (Rp.1.257.116.000,000, -), and Medium Enterprises at 30 % (USD 754.27 billion, -). Allocation of channeling credit facilities get help ON THE Micro Investment by 15% (Rp.195.002.850.000, -), Small Business by 50% (Rp.650.009.500.000, -), and Medium Enterprises: 35% (U.S. $ 455 006. 650.000, -). Allocation of channeling credit facility ON THE Consumption assistance Micro 10% (Rp.257.001.000,000, -), Small Business by 65% (Rp 1,676,977,900,000, -), and 25% Medium Enterprises (IDR 644.991. 500.000, -).

Based on the conceptual framework as described above, then this hypothesis can be formulated as follows:
1) The extension of credit by micro, small and medium) affect the level of loan collectibility.
2) The extension of credit by micro, small and medium enterprises) and the level of loan collectibility affect bank performance.
3) The extension of credit by micro, small and medium enterprises) indirect effect on the health of banks through loan collectibility level.

Methodology

Research Design
In this study conducted using a survey of lending micro, small and medium enterprises by the Bank of Papua in Papua province. The subject of this study is the Bank of Papua MSME lending in Papua province, while the object of this study are: a) business loans for micro, small and medium enterprises, b) the level of collectibility; c) banking performance. This study examines the relationship between variables, which according to (Danang, 2012), that the study is included in the explanation of the study criteria (explanatory or confirmatory research).

Early stages of the preliminary investigation consisting of: a) either individually interview with The Bank of Papua and with some business credit program miko customers, small and medium enterprises, b) field research on the type of micro, small and medium enterprises; c) Reviewing research -previous research, and d) discussions with the various parties involved in the research series.

Location of the study (sample region) in the province of Papua were held for 3 (three) months, ie from March 2012 to June 2012.

Population and Sample
The population in this study is structurally officials at the Office of the Bank of Papua. Respondents consisted of three (3) types of businesses that type of micro, small, and medium when the study was conducted is still in operation (still receive credit time of the study) by 15 SMEs (consisting of 5 micro; 5 small businesses, and 5 medium-sized businesses). This study uses the data in 2012.
**Method of Data Analysis**

The analysis model used is the Structural Equation Model (SEM) is the solution using the program package Partial Least Square (PLS). The system of simultaneous equations to be estimated is as follows:

\[
Y = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + e_1
\]

\[
Z = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 Y + e_2
\]

\[
Z = (\beta_0 + \beta_4 \alpha_0) + (\beta_4 \alpha_1 + \beta_1)X_1 + (\beta_4 \alpha_2 + \beta_2)X_2 + (\beta_4 \alpha_3 + \beta_3)X_3 + (\beta_4 e_1 + e_2)
\]

Research Results and Discussion

Based on the results of the analysis (Figure 2) shows that all significant indicators form variables. This is evidenced by the value of t statistic (t count) greater than t table and values Composite Reliability shows the results greater than 0.6 so that the subsequent analysis to examine the relationship between variables can be resumed.

*Figure 2. Analysis Results Pengearuh Lending to Micro, Small and Medium Enterprises to Collectibility Papua Credit and Bank Performance in Quarter II (two) in 2012.*
Table 3. Hypothesis Testing Results

<table>
<thead>
<tr>
<th>Variabel Independen</th>
<th>Variabel Dependen</th>
<th>Effect Path Coef.</th>
<th>t-Count</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Direct</td>
<td>Indirect</td>
<td>Total</td>
</tr>
<tr>
<td>Micro Business</td>
<td>Collectibility Level</td>
<td>0,211</td>
<td>0,000</td>
<td>0,211</td>
</tr>
<tr>
<td>Small Business</td>
<td>Collectibility Level</td>
<td>0,269</td>
<td>0,000</td>
<td>0,269</td>
</tr>
<tr>
<td>Medium Business</td>
<td>Collectibility Level</td>
<td>0,262</td>
<td>0,000</td>
<td>0,262</td>
</tr>
<tr>
<td>Micro Business</td>
<td>Banking Performance</td>
<td>0,335</td>
<td>0,101</td>
<td>0,436</td>
</tr>
<tr>
<td>Small Business</td>
<td>Banking Performance</td>
<td>0,381</td>
<td>0,108</td>
<td>0,489</td>
</tr>
<tr>
<td>Medium Business</td>
<td>Banking Performance</td>
<td>0,321</td>
<td>0,102</td>
<td>0,423</td>
</tr>
<tr>
<td>Collectibility Level</td>
<td>Banking Performance</td>
<td>0,382</td>
<td>0,000</td>
<td>0,382</td>
</tr>
</tbody>
</table>

Source: Result of data analysis, 2013.

Analysis of the direct influence of direct effect and total effect effect, between the construction of the model can be compared to evaluate the effect of any construction on the direct influence that no other is the coefficient of all stripes coefficients with arrows leading to the same goal. While the effects that arise through an intermediate variable (interview variable) and the total effect is the effect of the various relationships (Joseph, 1990), the results of his efforts are presented in Table 1.

The effect of credit by the business sector to the Bank's performance in the Papua Special Autonomy in Papua province. On the results of this study stated that loans by businesses (micro, small and medium enterprises) to the level of collectibility conducted by the Bank of Papua Special Autonomy in Papua period largely unfulfilled, so the first hypothesis is accepted.

Effect of level of collectibility of loans to the Bank's performance in the Papua Special Autonomy in Papua province. In the results of this study suggest that the level of the Bank’s performance kolekbilitas Papua Special Autonomy in Papua period has a significant effect, so that the third hypothesis

The effect of indirect lending to the business sector by the Bank's performance in the Papua Special Autonomy in Papua through the collectibility of loans. In the results of this study suggest that the level of credit to the Bank's performance in the Papua Special Autonomy in Papua had a significant effect, so the hypothesis of four received.

Conclusion

The credit under Micro, Small and Medium significant effect on the level of loan collectibility. The credit under Micro, Small and Medium significant effect on bank performance. The credit under Micro, Small and Medium Enterprises indirect effect on the health of banks through credit kolektibilitas level.
Reference

The Impact of Governance and Complexity of Uniform Customs and Technology on Third-Party Logistics and Supply Chain Management

Abstract

Today’s global market is more fiercely competitive than ever. Technological change and demanding customers force international firms to change the way they do business. The third-party logistics (3PL) industry continues to be very dynamic. The use of the third-party logistics services by large international firms has expanded steadily, and the services process has become more sophisticated and complicated. This paper addresses the impact of Uniform Customs and Practice imposed by the International Chamber of Commerce, technology usage, and knowledge management on third-party logistics including causes of the use of those services on such issues as logistics practice, service levels, and shipper satisfaction. Since the challenges of complexity, responsiveness, and governance related to logistics and supply chain management lie along the path for managers to make a proper execution and solution, the findings from this research could be a potential contribution for business community and manager success in the future.

Keywords: governance and complexity, uniform customs and practice, technology, third party logistics.

INTRODUCTION

The dynamic advantage of competition could be the factor that shape strategic interactions and often determine which firms succeed and which firms fail in global business. Today’s global market is more competitive than yesterday. Competitive advantage is the firm’s ability gained through attributes and resources to perform at a higher level than others in the same industry or market. Technological change, knowledge management, and rule and regulation force international firms to change the way they do business. Global competition and outsourcing put tremendous pressure on production cost, logistics system, and supply chain to deliver the goods as quickly as possible at the lowest cost. Another factor to determinant of business success is the role of the logistics system in ensuring the smooth flow of services, materials, finished products and information throughout a company’s financial gain. In the past decade, the discrepancy of transport chain creates an urgent need for efficient integration of operations, information and logistics procedure. The focus may be placed on the provision of accuracy and relevant information throughout the transport procedure to allow involved parties to have required proper knowledge about what is happening at each stage and to control what happens to their merchandises, cargos, and payments. In the past few years, third party logistics providers (3PL) have been increasing their role in global market significantly. More and more companies outsource their logistics functions to 3PL to make their supply chains system more effective and efficient (Jung et al., 2008). Third party logistics can improve customer service, reduce costs, discrepancy elimination, and integrate the supply chain with increase productivity and growth accordingly. In this paper, an attempt
has been made to highlight the importance role of third party logistics providers in competition globally along with implementation of a practical model and case illustration. The research questions in this paper are:

1) What are driving forces of the relevant model for third party logistics providers?
2) What is the impact of the Uniform Customs and Practice and technology on third-party logistics and supply chain management?

RESEARCH METHODOLOGY

The methodology used in this paper was based on e-research, case study, and a survey of the literature in the field. E-research encapsulates research activities that use a spectrum of advanced information communication technology capabilities and embraces new research methodologies emerging from increasing access to research instruments and facilities, sensor networks and data repositories, software and infrastructure services that enable secure connectivity and interoperability (Zikmund, 2003).


This paper also employed multiple-case study. Case study should be used in dealing with questions related to how and why results come about. Case study method is an exploratory research technique that intensively investigates one or a few situations similar to the research’s problem situation (Yin, 2008). The primary advantage of the case study is that an entire organization or entity can be investigated in depth and with meticulous attention to detail. The highly focused attention enables the researchers to carefully study the entire case properly (Bonoma 1985).

LITERATURE REVIEW AND DEVELOPMENT OF PROPOSITIONS

Figure 1, identifies drivers of third party logistics providers and outsourcing strategic, integration of logistics, and key performance outcomes. Firms are facing the global competition, globalization and increasingly sophisticated shipper needs and a greater integration of technologies. These challenges have compelled organizations to seek third party logistics providers and outsourcing to create a better logistics and supply chain performance. This model assists firms in building effective functions that result in shipper satisfaction, delivery performance, and financial gain.
The Impact of Governance and Complexity of Uniform Customs and Technology on Third-Party Logistics and Supply Chain Management

Figure 1: Model of Superior Third Party Logistics Service

Table 1 is a summary of key constructs that are shown in Figure 1. Definition of these constructs and literature base is identified.

Table 1: A Summary of Constructs, Definition and Literature Base

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Definition</th>
<th>Literature Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uniform Customs</td>
<td>Standardized customs, commonly accepted trade regulations and governance rules to promote the smooth flow movement of shipments in logistic and supply chain</td>
<td>Czinkota, 2004; Fung, 2004; Hill 2005; Jimenez, 1997; Sakchutchawan, 2009; UCP 400; UCP 500; UCP 600</td>
</tr>
<tr>
<td>IT Utilization</td>
<td>The extent of information and communication technology use for massive, timely and quality data transmission and information flows</td>
<td>Barney, 1991; Closs and Xu, 2000; Feeny &amp; Ives, 1990; Hardaker et al. 1994; Kerr 1989; Swierczek &amp; Shrestha, 2003; Vargas, Hernandez, &amp; Bruque, 2003</td>
</tr>
<tr>
<td>Knowledge Management</td>
<td>Systematic creation, retrieval and application of information and knowledge resources for the purpose of value enhancement and delivery.</td>
<td>Chapman and Soosay, 2002; Gloet and Terziowski, 2004; Grant, 1996; Tarafida and Gordon, 2005; Turner and Makhija, 2006</td>
</tr>
<tr>
<td>Third Party Logistics (3PL) Providers</td>
<td>Firms that provides service to its customers of outsourced (or &quot;third party&quot;) logistics services for part, or all of their supply chain management functions.</td>
<td>Bowersox and Closs, 1996; Bowersox and Daugherty, 1995; Gunasekaran and Ngai, 2003; Lieb and Bentz, 2005;</td>
</tr>
<tr>
<td>Shipper Satisfaction</td>
<td>Positive attitude of customers through experiencing comprehensive customer requirements by 3PL providers</td>
<td>Daugherty, Stank, and Ellnger 1998; Innis and La Londe 1994; Jayaram et al., 2000; Sauvage, 2003; Mentzer, Flint, and Hult 200; Tersine and Hummingbird,</td>
</tr>
</tbody>
</table>
Constructs | Definition | Literature Base
--- | --- | ---
Delivery Performance | The extent of getting goods and services safely deployed to the customers on the right time at the right prices. | Fawcett et al, 1997; Kumar 2001; Lai et al., 2008; Morash et al., 1996;
Financial Gain | Positive net revenue flows through the use of 3PL. | Gunasekaran and Ngai, 2003; Hayes and Pisano 1994; Hennart 1994; Jean et al., 2010; Lu and Yang, 2006

**Uniform Customs and Practice**

Many countries still lack the information communication technology systems to facilitate speedy and cost-effective in shipping and custom processing. According to Czinkota, the principle of the trade facilitation rationale is to reduce unnecessary customs scrutiny that impedes the movement of shipments (Czinkota, 2004). Regulation has been a major barrier for third party logistics providers (3 PL) for decades. Governance and complexity of rules and regulations of Uniform Customs and Practice on logistics and supply chain system are inevitable factors for firms to deal with. Indeed, firms have struggled for years to achieve the required functional process. This could be one reason why the cohesive in logistic and supply chain has never fully integrated. The Impact of trade regulation on shipping and the procedure of custom in trade always face voluminous paperwork, complex formalities, and many potential delays and errors (Hill, 2005). The currently valid version, referred to as Uniform Customs and Practice 600 (UCP 600), entered into effect for letter of credit on July 1, 2007. It is still questionable if the Uniform Customs and Practice is a clear set of rules (International Chamber of Commerce, 2007). According to Sakchutchawan, articles on shipping and transportation of Uniform Customs and Practice contain ambiguous language (Sakchutchawan, 2009). It is very hard to follow for practice. Jimenez confirmed the legal status of the Uniform Customs and Practice affects the international shipping, transportation, and trade (Jimenez, 1997). Fung commented that it was not easy to understand the context of each article of Uniform Customs and practice. As a result, the courts were often asked to interpret certain provisions of the International Chamber of Commerce. These interpretations and opinions are collected and published by the International Chamber of Commerce every few years (Fung, 2004, p. 17). Unlike the UCP400, the UCP 500 and 600 have opened the door for third party logistic providers to enter the global logistics market freely without any restrictions. This opportunity has led to the outsourcing significantly. It definitely generated the highly competition environment between original carriers and third party logistics providers accordingly. The above evidence leads to the following proposition:

P1. Greater acceptance of the Uniform Customs and Practice 600 leads to greater competition between original carriers and third party logistics providers.

**Information Technological Usage**

Information technological usages are everywhere in the modern business. Third party logistics firms become more efficient by integrating their information and communications technology effort. The proper implementation of information communication technology system (ICTS) can be a significant source of competitive advantage to third party logistics firms accordingly. Information communication technology system include but not limit to hardware, software, and network design required to facilitate processing and exchange. ICTS also includes related components in the supply chain, such as satellite transmissions, Web-
based ordering, electronic data interchange, bar-coding, systems for order entry, order processing, vehicle routing and scheduling, inventory replenishments, automated storage, and retrieval systems (Closs and Xu, 2000). Information technology (IT) has long been recognized for its potential role in contributing to sustained competitive advantage for logistics firms (Barney, 1991; Feeny & Ives, 1990; Swierczek & Shrestha, 2003; Vargas, Hernandez, & Bruque, 2003). According to Langley, third party logistic firms that adopt and creatively deploy proper technology, through the collective use of mind and knowledge, are able to implement innovative methods and gain superior competitive advantage (Langley et al., 1988). He argued the application of ICT is an effective means to enhance the strategic significance and operational effectiveness of firms. Kerr (1989) has addressed how ICTS can contribute to the overall strategy of the firm, and that this might involve various activities outside the traditional logistical task. Stock (1990) has shown how logistics firms can effectively use technology and gain competitive advantage through automated systems, stock picking and bar-coding. Additionally, Closs et al. (1997) have offered empirical evidence that firms innovating through the development of IT capabilities can positively influence overall logistics competency. Technological utilization and economic uncertainties have literally changed the landscape of competition in logistics business. Several surveys have been conducted to investigate the use and importance of information technology supporting third party logistics operations (Hardaker et al. 1994). The above solution leads to a proposition as:

P2. Usage of information technology positively supports the effective process of third party logistics Providers

Knowledge Management

As today competitiveness based on intellectual resources, knowledge management is a vital part of competition of third party logistics globally. According to Chapman et al., (2003), Knowledge management is an essential component in the flow of material, information, and services for logistics operations. Knowledge management is defined as its facility for developing and mobilizing its knowledge assets with a view toward furthering its objectives (Tarafda and Gordon, 2005). The amount of data and information available to firms is at unprecedented levels in today’s economy, and firms need to transform this information and these data into knowledge and action to be effective in process and services for customers. Thus the establishment of effective knowledge-management processes is an essential part of successful transport and supply chain services. Knowledge in logistics incorporates two key aspects. First, Information communication technology system (ICTS) create a basis for knowledge sharing within and among the parties or organization involved. Second, people are involved as individual actors within these organizations. Knowledge networks in third party logistics allow firms to create, share, and use strategic knowledge to improve operational efficiencies and to assist customers better. According to many scholars, the knowledge-based view of the firm centers on knowledge as the most important resource of the firm. The uniqueness of a firm’s knowledge is fundamental in the firm’s ability to develop a sustained competitive advantage (Grant, 1996; Turner and Makhija, 2006). The knowledge management competency is a very important element to the success of third party logistics services (Gloet and Terziovski, 2004). Firms with a knowledge management competency are able to capture knowledge and related information and make them accessible to their employees and customers. In summary, third party logistics has a competitive edge to provide full services to customers based on their proper knowledge management. The above evidence leads to the following proposition:
P3. Proper knowledge management leads to success third party logistics operations.

Third Party Logistics Providers (3PLs)

Third party logistics is a firm that provides service to shippers of outsourcing logistics services for part, or all of their supply chain functions. Third party logistics providers typically specialize in integrated operation, warehousing and transportation services, these services go beyond logistics and included value-added services related to the production or procurement of goods and documentation for payments. Third party logistics may own or not own the ocean vessel. There is an increasing significantly in third party logistics providers (3PL’s) or outsourcing in the past few years. There are many motivational factors that influence outsourcing decisions. Therefore, shippers or customers have more options to utilize shipping service form third party logistics providers to better meet their needs. The evidence indicated that there has been a closed relationship between shippers or customers and third party logistics providers more than ever (Lieb and Bentz, 2005). E-logistics is a significant weapon of third party logistics providers to take business away from major logistics carriers. E-logistics refers as the transfer of goods and services using information technology communication system such as electronic data interchange (EDI) and on line communication. This process enables logistics providers to be able to respond to customers’ inquiry on twenty four hours a day and seven days a week basis. Major logistics carriers must be aware that customers always look for efficiency, putting emphasis on cost compression and high service level. In recent years, outsourcing is increasingly being regarded as resources that support the completion of logistics processes. It covers the flow of goods from suppliers through manufacturing and distribution chains to the end consumer with fundamental of E-logistics (Gunasekaran and Ngai, 2003). In today’s highly competitive logistics market, major logistics carriers need to improve their service and operations. Otherwise, they will lose market shares to third party logistics providers. The improvement of logistics will ensure the smooth flow of materials, products and information throughout the supply chains system. Furthermore, logistics has become more prominent and is recognized as a critical factor in competitive advantage (Bowersox and Closs, 1996; Bowersox and Daugherty, 1995).

Shipper Satisfaction

It is very important to maintain a high level of shipper satisfaction. Firms must ensure their services meet or surpass shipper expectation. Shipper satisfaction provides a leading indicator of consumer loyalty. There is no doubt that quality of service is the factor that draws and maintains customers. According to the research of Tersine and Hummingbird, firms need to have a proper time-base management in order to reduce lead times that relates to better products and superior delivery (Tersine and Hummingbird, 1995). Reduction of cycle times assumes close collaboration with suppliers that can ease the cost of the innovation process. Dornier and his team explored the diffusion of technological knowledge with dominant suppliers. They concluded that the suppliers selected must be managerial, innovative and reactive (Dornier et al., 1998). Superior customer service is a key integrated strategic processes contributing to Logistics supply-chain time-based performance. The processes selected add value along the supply chain from the supplier to the end customer and include activities such as design of new products and processes, procurement, assembly or manufacturing, distribution and customer support. Sauvage also confirmed that the critical operational objective assigned to the logistics service provider by the majority of shippers is to improve the punctuality of delivery (Sauvage, 2003). Accuracy and standardization of firms also increased customer satisfaction. Standardization simplifies, thus engendering cycle time reduction (Jayaram et al., 2000). Standardization can also create focused expertise with
documents, materials and processes to a point where it is much easier to identify sources of
delay, discrepancies, unnecessary steps and opportunities for parallelism. The fact is the
importance of logistics service quality (LSQ) has long been recognized because of the role
that it plays in customer satisfaction. A number of empirical studies provide strong support
for the link between improvements in logistics service quality and improvements in customer
satisfaction (Daugherty, Stank, and Ellner 1998; Innis and La Londe 1994; Mentzer, Flint,
and Hult 2001; Stank, Goldsby, and Vickery 1999). Furthermore, LSQ has also been linked
to market share through customer satisfaction and loyalty (Daugherty, Stank, and Ellinger
1998). The above evidence leads to the following proposition:

P4. Shipper satisfaction is positively influenced by a superior of third party logistics provider.

Delivery Performance
Delivery performance (DP) is a term that is used to identify the rate of efficiency that a third
party logistics demonstrates when it comes to preparing and delivering an order to a
customer. Current global competition places a substantial value on it delivers. The important
of calculation speeds and data storage capacity have increased significantly in third logistics
industry. A major consequence of this is technology, by accelerating the data preparation and
transmission times, has increased the reaction speed to market needs. Delivery speed refers to
ability to reduce the time between order taking and customer delivery to as close to zero as
possible. Logistics firms must be able to respond to the needs and wants of customers as
demanded. Delivery reliability is another important function for the firms to perform to
exactly meet quoted or anticipated delivery dates and quantities. Superior operations will
enable firms to be able to distribute accordingly. The research of Lai et al., (2008), confirmed
there was a great positive impact on third party logistics firms that use information
technology for innovation. Likewise, Morash et al., (1996) tested and proved that logistic
firms with oriented capabilities will able to effectively provide widespread and intensive
distribution coverage and target selective exclusive distribution outlets, and minimize total
cost of operation. Practically, logistics innovation through information technology has been a
superior tool to manage and control the delivery system. With rising shippers expectations of
third party logistics services in timeliness and delivery speed, many third party logistics
service providers in many countries have been looking for ways to improve their services.
Thus, it is essential that timely and easily accessible information that facilitates physical
product flows be made available for decision making (Kumar 2001). Proctor & Gamble's
status as a key Wal-Mart supplier required shorter delivery lead times and a generally much
higher level of logistics service than Proctor & Gamble had previously envisioned. This
emphasis on reducing cycle times has become preeminent across a variety of industries and
has led to the adoption of just-in-time or quick response delivery systems (Fawcett et all,
1997). The above solution leads to the following proposition:

P5. The superior capacity of third party logistics providers positively supports firm’s
performance in terms of delivery speed and accuracy.

Financial Gain
Financial gain refers to the amount by which the revenue of a logistics business exceeds its
cost of operating. A low product cost signifies efficiency in the better process of the third
party logistics service, in handling uncertainty, and in efficient problem solving by the cross
functional team members. In logistics market, firms compete over time by expending
resources with the purpose of reducing their costs. Hennart (1994), pointed out firms exist
because they organize production at a lower cost by using organizational modes superior to those used by competitors. According to the research of Jean et al., (2010), better logistics capabilities of third party logistics providers lead to higher operational income. Likewise, Morash et al., (1996), confirms that successful logistics firms recognize that consistently providing superior value to customers is critical to long-term success and operational income. Practically, the shareholder view of the business is part of the performance measurement driver and is an external driver of third party logistics providers. Operational income is an internal performance measurement driver as the organizations focus on reducing costs and finding ways such as using technology to reduce costs in innovative ways (Gunasekaran and Ngai, 2003). To stay ahead in the business, third party logistics firms must have successful financial performances and find ways to become the best in the industry. Third party logistics service firm must reduce cost in line with better quality products and services as empirically proven in the changes in nature and structure of competition in the service sector. Using strategic flexibility to better meet customer needs, thereby offering improved customer value, may allow the firm to develop a competitive advantage that ultimately results in improved net income. A firm's logistics capability has been perceived as one way to exceed customers' expectations and enhance financial gain (Hayes and Pisano, 1994). According to the study of Lu and Yang, (2006), they found that successful third party logistics firms in Taiwan recognize that consistently providing better logistics value to customers is critical to long-term sales growth operational income.

The following propositions were developed from the preceding research:

P6. The effective operations and cost reduction have a direct positive impact on firms in term of financial gain.

Cases and Service Characteristics of Third Party Logistics Providers
In this section, specific services characteristics of third party logistics providers are identified through the on-line cases and court cases. The information of cases is as follows:
(b) http://www.onlinedistribution.co.nz/case-studies/loreal-reverse-logistics;

According to the cases, third party logistics providers respond to external pressures and competitions very well. Those companies endeavored to improve their delivery performance of products and services through the implement of e-logistics system which involves information communication technology as a tool for innovation into the logistics process. This process enabled the company to gain market shares and the communication network with customers. The companies provide a full service in customer care, warehousing, order processing, transportation and logistics, seamless real-time data management and provision of technology expertise to meet the varied needs of each link in the supply chain from suppliers through to manufacturers, distributors, direct marketers and consumers. Their transportation operations are well integrated with their web-based information system which has reduced the safety stock level. This represents a significant improvement in operational performance.
Financial transactions have also become much easier and more secure. The incoming and outgoing of their cash flow are well managed. Furthermore, its partners are on the web, helping to improve integration with its partnering firms. The wide applications of information and communication technology (ICT) for logistics and freight transportation have resulted in great process rationalization and integration of network business processes across supply chains. The increasing of Governance and complexity of rules and regulations of international institutes and Uniform Customs and Practice 600 (UCP 600) impacts on the logistics industry inevitable. Indeed, firms have struggled for years to achieve the required functional process. Utilizing service of third party logistics provider helps firms to overcome the issues on UCP 600. Firms’ Responsiveness in this process is improved and innovative, which thus improve the overall supply chain performance. Information technology is a tool of innovation that enables firms to get the right products or service to the right place in the right quantity at the right time, and to provide quality services to satisfy the customer’s needs. It changes and redefines some traditional roles in a logistics system from cargo ordering, invoicing, to global cargo tracking, monitoring, etc. Below is the table demonstrates the superior capacity of third party logistics providers (3PL).

<table>
<thead>
<tr>
<th>Description</th>
<th>Key Aspects of Superior Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shipper satisfaction</td>
<td>Better facilities &amp; space to perform all task from heavy transport to warehousing</td>
</tr>
<tr>
<td>Flexibility &amp; responsiveness to change</td>
<td>Fulfill requirements &amp; goal of multiple clients at a time</td>
</tr>
<tr>
<td>Delivery performance</td>
<td>Moving after stocks &amp; deliver at very rapid pace. Reduce safety of stock</td>
</tr>
<tr>
<td>Uniform Customs &amp; Practice</td>
<td>Ability to solve problems of governance &amp; complexity of rules and regulations</td>
</tr>
<tr>
<td>Financial gain</td>
<td>Transactions have become much easier and more secure. Cost &amp; cash flow effectiveness</td>
</tr>
</tbody>
</table>

Table 2: Service Characteristics of 3PL

Conclusions

This paper address the use of the third-party logistics services by international firms that has expanded steadily, and the services process has become more sophisticated and complicated. Governance and complexity of rules and regulations of international institutes on logistics and supply chain system are inevitable factors for firms to deal with. Indeed, firms have struggled for years to achieve the required functional process. The model and propositions revealed that proper utilization of third party logistics providers benefited firms in terms of shipper satisfaction, delivery performance, and financial gain as indicated in table 2. The results of this study should be a potential contribution for global firms in seeking for a superior service and performance from third party logistics providers. This research framework enables future researchers to examine more closely the nature of external drivers and outsourcing from third party logistics providers. As a result, the concept presented and discussed also provides a foundation for both the business communities and academic communities to gain insights regarding the utilization of third party logistics services.
References

The Impact of Governance and Complexity of Uniform Customs and Technology on Third-Party Logistics and Supply Chain Management


Uniform Customs and Practice 600, New York: International Chamber of Commerce.


http://www.onlinedistribution.co.nz/case-studies/loreal-reverse-logistics;
Ethics and Leadership of Nascent Entrepreneurs in China and the USA

Abstract
This work-in-progress paper examines the relationship of leadership and ethics in the American and Chinese cultures. It defines leadership and ethics, and discusses the necessity of both concepts in an organization. It identifies the role ethics play in effective leadership. It also examines the effect that each culture has on the ethics of its leaders. The study seeks to discover the difference between Chinese and American cultures in relation to leadership and ethics. A study was conducted using 217 nascent entrepreneurs from the United States and 213 nascent entrepreneurs from China. Each participant completed Fiedler’s Least Preferred Coworker Scale and Forsyth’s Ethics Position Questionnaire. The results from each study were then compared to distinguish the differences between the two cultures views on leadership and ethics. The results of this study indicate that individualism and moral relativism are correlated with relationship oriented leaders in the United States. In China, task oriented leaders tend to base their ethical decisions based on moral relativism. This study helps leaders from the United States and China to better understand one another in today’s global business environment.

Introduction
Ethics and leadership are important concepts and popular topics of discussion in today’s business world. Effective leadership is necessary for the long-term success of businesses. This has been evidenced by the downfall of companies such as Enron, in which the unethical behavior of the leaders caused the company to fail (Hornett & Fredericks, 2005). It is becoming increasingly evident that the most effective leaders are those who hold strong ethical values. Employees are more likely to follow the direction their leaders lay out for them if they feel that they are trustworthy and abide by ethical principles. Ethics training has become essential for business leaders, and, as a result, there have been many studies done on the combination of leadership and ethics. Dean (1997) writes, “Knowledge of business ethics is necessary to identify the ethical issues imbedded in ill-defined situations and to select the appropriate strategies for resolving the issues.”

Literature Review

Leadership
Effective leadership is an important part in any organization. Many leadership theories have arisen over the years. There are various types, including trait theories and behavioral theories, and each offers a unique perspective on leadership. Armandi, Oppedisano, and Sherman
(2003) conducted a study on leadership theory application using a case study. This instrument requires the reader to analyze the case and answer questions about the case based on the leadership models presented prior to the case (Armandi et al., 2003). They presented a real life case that was disguised, not naming any of the people or organizations (Armandi et al., 2003). This instrument allows readers to apply theories to real situations and to better be able to understand and implement them in their own lives (Armandi et al., 2003).

Hetland, Hetland, Cecilie, Pallesen, and Notelaers (2011) conducted a study comparing transformational leaders and transactional leaders and need satisfaction. The needs specifically studied were autonomy, competence, and relatedness (Hetland et al., 2011). The sample was made of 661 employees (Hetland et al., 2011). Each of these employees took two assessments: the multifactor leadership questionnaire and basic need satisfaction at work (Hetland et al., 2011). The results indicated that both transformational and transactional leadership play a part in satisfying the basic needs of employees (Hetland et al., 2011).

One model that has developed to indicate leadership style is Fiedler’s Least Preferred Coworker Scale (LPC). A high LPC score indicates that a leader is more relationship oriented, while a low LPC score indicates that a leader is more task oriented (Theodory, 1981). Many have criticized Fiedler’s model saying that it does not hold any significance in explaining a leader’s actions (Theodory, 1981). Many also believe that it does not accurately measure the leadership style of an individual.

Kilburn and Cates (2010) conducted a study on the influence that the way leaders behave had on the attitudes of their followers. They hoped to discover which type of leader people were most willing to follow (Kilburn & Cates, 2010). Each of their subjects was given three different examples describing different types of leaders (Kilburn & Cates, 2010). One of the examples described a relationship oriented leader, the second described a task oriented leader, and the third described a leader who was both relationship and task oriented (Kilburn & Cates, 2010). The subjects were then asked to fill out a survey that assessed their attitudes towards each scenario (Kilburn & Cates, 2010). The subjects had a more positive attitude toward the relationship oriented leader and the leader who was both relationship and task oriented (Kilburn & Cates, 2010). The followers of these leaders are more likely to provide open feedback to their superiors (Kilburn & Cates, 2010).

Amagoh (2009) suggest that in order for leaders to become more effective in organizations, it is important for them to be a part of programs that specifically develop leadership. He suggests that leadership development is an important part of an organization’s long term success and employees at all levels should be required to participate (Amagoh, 2009). There are a vast number of leadership development programs available to organizations; therefore, an organization can pick the one that best suits their organizational culture (Amagoh, 2009). These programs increase the effectiveness of the leaders in an organization and as a result the firm will become more productive as well (Amagoh, 2009).

**Ethics**

Ethics has become an important part of the business community. Merriam Webster’s Dictionary defines ethics as “the discipline dealing with what is good and bad, and with moral duty and obligation” (Maniam & Teetz, 2005, p. 85). A second definition it gives for ethics is “a theory or system of moral principles or values governing an individual or group or a guiding philosophy” (Maniam & Teetz, 2005, p. 85). Goldman and Anderson (2005) define
ethics as “the principles of right and wrong that are accepted by an individual or a social group” (p. 272).

Svensson and Wood (2004) argue that when an organization develops its ethics, it should consider its own views along with the views of society. They examine the effectiveness of proactive versus reactive ethics in the marketplace (Svensson & Wood, 2004). Proactive ethics involves organizations perceiving possible events and acting before they happen, while reactive ethics involves organizations taking action after a problem has already occurred (Svensson & Wood, 2004). Once they identified each factor of ethics, they then examined nine different cases of corporations facing ethical dilemmas and identified how they perceived their external and internal environments and how they dealt with the dilemma (Svensson & Wood, 2004). Through the analysis of these situations, the authors concluded, “Corporations need to take the same proactive response to their ethical values as they do to their product positioning” (Svensson & Wood, 2004, p. 31). Thoughts of ethics must be present from the beginning stages of an organization’s planning.

Dean (1997) discusses the need for growth in business ethics as a profession in his article Examing the profession and practice of business ethics. Business ethics was derived from the combination of the values of various fields. As a result of this, it can often appear less effective than the practice of ethics in professions such as law and medicine (Dean, 1997). It is a topic that is discussed frequently, and in light of various situations that have arisen, more people continue to be involved in the development of business ethics (Dean, 1997). These include those in the business profession, such as organizational leaders and educators, and those outside the business field, including philosophers, theologians, and legal consultants (Dean, 1997).

While ethics is a critical part of an organization, the profession of business ethics still needs some development. Dean (1997) identifies the elements of a “mature profession” and points out where the profession of business ethics is lacking. Through his analysis, he found that business ethics is especially lacking in the standard of service (Dean, 1997). Dean (1997) states, “If business ethics does not result in increased ethical behavior, it has failed in its duty to serve” (p. 1642). Dean argues that business ethics has not met this requirement.

Townsend, Gebhardt, and Townsend (1997) argue the importance of a code of ethics in an organization. Customers continue to become aware of ethical discrepancies in an organization’s actions, and are critical of those organizations who they feel have not behaved ethically (Townsend et al., 1997). It is the responsibility of the leaders in an organization to set the ethical standards by action; however, a code ethics can be helpful as the leader and his subordinates have a standard to measure themselves against (Townsend et al., 1997). Townsend (1997) and his colleagues used the code of ethics from the Marine Corps as an example and state it “models the three essential characteristics for usefulness: it is brief, clear, and believable.” Leaders must be presented with the code of ethics during their training (1997). They must also be held responsible to follow it and inspire subordinates to follow the code (1997).

Cheng and Seeger (2012) conducted a case study on the collapse of Health International Holdings (HIH) Insurance in 2001, which is described as “the largest corporate failure in Australian business history”, in the article Lessons learned from organizational crisis: business ethics and corporate communication (p. 74). This article examined both the effects of the company’s communication failures and lack of business ethics in the HIH case (Cheng
& Seeger, 2012). Several of the executives of this company were prosecuted for their unethical and illegal activities. HIH did not provide clear information of its failing financial state and kept their troubles hidden from their shareholders (Cheng & Seeger, 2012). Records were found of conversations between the CEO and major insurance brokers, in which the CEO reassured them that the company was not having any financial problems (Cheng & Seeger, 2012). In this case the lack of honest and ethical business dealings led to the downfall of the company.

Some scholars have attempted to explain ethics by developing models. Svensson and Wood (2008) noticed that, although business ethics had been taught as a discipline for over 30 years, there had not yet been a model presented to explain the concept. The model they present consists of three different components – expectations, perceptions, and evaluations – which are connected to one another through several subcomponents such as the values and beliefs of an organization (Svensson & Wood, 2008). Each of these components of an organization is dissected to examine the business ethics (Svensson & Wood, 2008). In presenting this model, the authors hoped to make “a contribution to the creation of a conceptual framework for business ethics” (Svensson & Wood, 2008, p. 303).

**Forsyth’s Ethics Position Questionnaire**

Ethical ideologies differ in different cultures and countries. In 2004, Redfern and Crawford completed a study using Forsyth’s Ethics Position Questionnaire (EPQ) in the People’s Republic of China. The questionnaire determines whether a person makes ethical decisions based on relativism or idealism. The study hopes to determine the effectiveness of Western assessments in other parts of the world, specifically China (Redfern & Crawford, 2004). The sample consisted of 115 managers who were born in China and living either in the northern part or the southern part of China (Redfern & Crawford, 2004). Through regression and factor analysis, they found that the results in China were consistent with previous tests done on this questionnaire (Redfern & Crawford, 2004). They also determined that managers in the northern part of China scored lower on idealism than the southern part did (Redfern & Crawford, 2004). They believe that one possible cause of this is that the South has been exposed to the Western culture more than the North (Redfern & Crawford, 2004).

In order to confirm the results of a previous study, Redfern conducted a similar study in 2005. China has become a large part of the world economy, and because of this, it is important for those in the western part of the world to better understand the thought processes of Chinese managers and the ways they run business (Redfern, 2005). Redfern (2005) studied the differences of ethical ideology in the different areas of China and if ethics differed in managers in areas of China that were more industrialized versus those regions that were less developed. The sample was made of 206 managers native to China who lived in various different regions of the country (Redfern, 2005). The managers in this sample scored high in both relativism and idealism (Redfern, 2005). Managers who worked in more industrialized areas of China scored higher on idealism than those from areas with less industrialization (Redfern, 2005).

Davis, Anderson, and Curtis (2001) conducted a study to further validate the accuracy of the Ethics Position Questionnaire (EPQ). Previous studies indicated that the EPQ measured two factors in the subjects who took the survey: idealism and relativism (Davis et al., 2001). They also wanted to compare the results of the EPQ to scales measuring dogmatism, empathy, and altruism (Davis et al., 2001). The sample consisted of 285 graduate and undergraduate students who were taking an organizational behavior class at a public
university (Davis et al., 2001). Their results indicated that the EPQ indeed measured the subjects’ idealism and relativism along with a third factor which they titled veracity (Davis et al., 2001). The study also indicated that those who scored high in relativism were not dogmatic when it came to their belief systems (Davis et al., 2001). Those who were found to be idealistic scored higher on the empathy skill and were found to be against actions that could cause others to be harmed (Davis et al., 2001).

**Leadership and Ethics**

Leaders must be held to high ethical standards to ensure the success of the organization. Over the years, there have been various examples of leaders who caused the downfall of their organizations because of their lack of ethics. Hornett and Fredericks’s (2005) conducted a study as a result of the various business scandals concerning large corporations that had come to light in the recent years. The goal of their study was to gain an understanding of how the students perceived the leader’s actions in each of these scenarios (Hornett & Fredericks, 2005). Hornett and Fredericks (2005) used a sample of students from two different classes at two different universities. The first was a communication leadership class at a private religious college and the other was a business leadership class at a public state university (Hornett & Fredericks, 2005). They state, “Each student analyzed a particular leader using one leadership theory of his or her choice from the text (Hackman and Johnson, 2000) that provides nearly two dozen distinct leadership theories” (Hornett & Fredericks, 2005, p. 234). They examined the analyses that the students provided and found three “patterns” in the students’ responses (Hornett & Fredericks, 2005). First it was found that “students sympathize with any leaders who seem to value family or try to protect their family” (Hornett & Fredericks, 2005, p. 237). Secondly, the students contributed “the downfall of some leaders to bad luck,” rather than the fact that they had consciously made an unethical decision (Hornett & Fredericks, 2005, p. 237). Finally, the study revealed that the students felt that those on top deserved what they had, even if they had obtained them through some unethical behavior (Hornett & Fredericks, 2005). They concluded that the students’ papers show that the current focus of material possessions in the world causes students to be unable to clearly differentiate between successful leaders and greedy ones (Hornett & Fredericks, 2005).

Brown (2006) researched the combination of ethics and leadership in his article *Corporate Integrity and Public Interest: A Relational Approach to Business Ethics and Leadership*. The study sought to determine if it is possible for leaders to have integrity when the organization they work for is seen as unethical (Brown, 2006). Various organizations were examined based on civil norms and corporate integrity is defined in the study (Brown, 2006). A leader’s relationships with those they work with and also the relationships they have with their families play a large part in the integrity of an organization (Brown, 2006). These leaders are part of large communities that involve corporations and all those who work in them.

Brown argues that a “key norm” in business relationships is reciprocity (Brown, 2006). Exchanges between two parties should provide long term benefits for both sides (Brown, 2006). Based on his analysis of the norms that exist in society and his definition of organizations as members of society, Brown (2006) concludes that it is possible for leaders to be ethical in an organization that is lacking in integrity. It is also possible for these leaders’ influences to help the organization to become an ethical one (Brown, 2006).

Butz and Lewis (1996) studied the relationship between moral reasoning, based on the results of a questionnaire measuring morals developed by Worthley (1987), and the orientation of
leaders, based on Fiedler and Chemer’s (1984) Least Preferred Coworker Scale. They compared the results and identified if they differed between males and females and also between managers and engineers (Butz & Lewis, 1996). They found that there was a difference in moral reasoning between males and females but managers and engineers did not differ in their moral reasoning (Butz & Lewis, 1996).

Methods

Data/Sample

The data analyzed consisted of a sample of nascent entrepreneurs from the United States and China. Each subject completed the Least Preferred Coworker Scale and Forsyth’s Ethics Position Questionnaire. The sample collected from the United States consisted of 217 individuals of which 144 were male and 73 were female. The ages of these individuals ranged from 20 to 29 with the mean age being 21.44 years. The number hours these individuals worked a week spanned from zero hours to 50. The mean hours worked in a week was 14.509. The sample of Chinese nascent entrepreneurs consisted of 213 individuals. The number of male participants was 119 and the number of females was 94. The ages of these individuals fell into a range of 19 to 26, with a mean age of 21.14. The Chinese participants were found to work between zero and 40 hours a week, with a mean of 8.092 hours.

Results/Analysis

A factor analysis was conducted on the sample’s results from Forsyth’s Ethics Position Questionnaire and four factors were identified. These factors were identified as consideration of others, moral relativism, situationalism, and individualism. These factors were then correlated with each subject’s LPC score to see if there was a significant correlation between ethics and leadership style.

The analysis of the results from the United States indicated that two factors are significantly correlated with the LPC scores of the participant. These results are found in Table 1. The correlation between LPC scores and moral relativism has a .000 significance and r=.333 indicating a positive relationship. The correlation between LPC scores and individualism has a .009 significance and r=.182. Although these were found to correlate significantly, the low Pearson correlations indicate a weak relationship between the two variables. The analysis of the Chinese nascent entrepreneurs indicated that one ethics variable correlated significantly with the LPC scores. These results are located in Table 2. The LPC scores of the participants from China correlated significantly with moral relativism. This correlation has a .037 significance and r=-.029. The Pearson correlation indicates a weak negative relationship. This means that lower LPC scores indicate higher scores in moral relativism.

Discussion

The reasons for the differences between the American and the Chinese nascent entrepreneurs are most likely due to the culture of each country. The results from entrepreneurs from the United States showed that the more relational a leader was, the more individualistic their ethical decisions were. The American culture holds to the beliefs that each person has inherent individual rights and should be treated with respect (Bailey, 2011). A leader with a high score on the LPC scale places value in relationships, so it would make sense they would develop a respect for each individual based on these relationships. They get to know their subordinates on a personal level and seek to treat each one fairly.
The Chinese results did not show significance in individualism. The Chinese society is one of a collective nature (Robertson, Olson, Gilley, & Bao, 2008). Robertson et al. state that a collective culture “refers to a society that values unity and cohesion, encourages loyalty with in groups, and discourages disharmony” (2008, p. 415). As a collective society, the Chinese tend to be more concerned with the well-being of the entire group rather than the individual. Confucianism also influences many Chinese views and this belief system is unconvinced that inherent human rights exist (Bailey, 2011). Bailey states that in the Confucian community, “one person does not place his needs above those of the interest of the group” (2011, p. 661). As a result of this, the Chinese do not place an emphasis on individualism when making ethical decisions.

The collective society of the Chinese culture also helps to explain why the results revealed that moral relativism was significant in the ethical decision making of the Chinese nascent entrepreneurs. The results indicated that a task oriented leader scored higher on moral relativism. According to Robertson et al., “relativism refers to the rejection of universal rules in making ethical judgments” (2008, p. 414). Moral relativism indicates that individuals make ethical decisions based on the situation. It indicates that a person holds to the thought that there are situations in which there is not an absolute right or wrong action. In the Chinese culture, a paradox exists between the collectivist culture and the concept of “guanxi” (Robertson et al., 2008). Guanxi emphasizes the importance of relationships within a group. Studies have shown that while it is beneficial for those in the group, it can cause those outside a group to suffer because the group will do whatever it takes to make their leaders and the group look good (Robertson et al., 2008). These two factors of the Chinese culture cause relativism to be present in the Chinese culture.

Moral relativism also proved to be significant in the results of the nascent entrepreneurs from the United States; however, the correlation between moral relativism and LPC scores was positive. This indicates that the more relational leader is more likely to base his ethical decisions on moral relativism. A relationship oriented leader is more likely to allow the degree of their relationships to affect their decisions. He may not be able to see right and wrong as absolutes due to his emotional connections. He sees each person as an individual and understands that there can be reasons for individuals to make situations in certain situations.

This study has confirmed various differences between the cultures of China and the United States. As the business continues to put more emphasis on global relations, it is important for leaders to be aware of the cultures with which they are dealing. Differences in leadership and ethical decision making can cause friction between cultures. It is important to understand the reasons behind decisions to improve relations between countries.

**Future Research**

This study revealed differences in the leadership and ethics of nascent entrepreneurs in the United States and China. One possible future study could replace the nascent entrepreneurs with older more experienced entrepreneurs. This type of study could reveal whether the correlations between LPC scores and Forsyth’s Ethics Position questionnaire are age related. The different age groups could be compared within one country, or repeated using both China and the United States. Another possible area of future research could be to compare the leadership styles and ethical decision making of different countries. The results from subjects in China or the United States could be compared to various countries across the world. This would continue to aid in each country’s global business dealings.
Conclusion

As the world continues to move toward a global marketplace, it is important for business leaders to understand cultural differences. Leadership is an important aspect of organizations as good leaders lead businesses to success. In light of many recent scandals in the corporate world, it is becoming increasingly important for leaders to be held to high ethical standards. Ethical leaders are essential for the success of an organization.

References


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**. Correlation is significant at the 0.01 level (2-tailed).
### Correlations

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* Correlation is significant at the 0.05 level (2-tailed).
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Wagner’s Hypothesis of Public Expenditure Growth – A Re-statement and Empirical Test

Abstract
The paper develops a re-statement of Wagner’s Law about the relationship between economic development and the role and size of government. Such a re-statement is made possible by (Biehl’s 1998) new translation of Wagner’s economic writing. That translation makes it possible to retrieve a version of Wagner’s Law that builds on earlier versions. The current paper suggests that Wagner’s Law can best be represented by a sigmoid function, similar to that widely used in biological growth studies. After presenting the case for this restatement, the paper develops this into a testable model using a sample of short time series drawn from many countries. Outcomes of the empirical analysis are consistent with the Wagner hypothesis and indicate a natural limit to the share of government in capitalist economies.

Introduction
“Over the last three decades, in all industrialized countries there has been an enormous expansion of government involvement in the economy, as measured by the share of national income going to taxes or government expenditures” (Slemrod 1995, 373)

While discussing the many conceptual and empirical difficulties in studying the relationships between government and economic growth at an international level, Joel Slemrod reminds us that a century after Wagner speculated about the link between economic growth and government activity, there still seems to be some casual empirical relationship between the two. The question remains however, whether something more systematic can be discerned from this casual relationship.

Debate about the role and size of government has been an enduring one in political and economic sciences. The problems and dilemmas that have characterised this debate continue to be imposing, as for instance (Prezworski 2004) in politics, and (Arrow 2004) in economics have recently observed.

Within economics, however, Wagner’s hypothesis, which posits a direct relationship between economic development and the size of government activities, offers one longstanding path into the issue. Observing a similar pattern of economic development and government growth amongst industrialising countries in the late nineteenth century, Wagner suggested that the relationship was not accidental, and that there were structural reasons why economic development stimulated the growth of government activity. A problem here however, immediately confronts researchers. Debate over Wagner’s Law has produced several interpretations and testing these has in turn produced mixed results. Indeed, in the 1980’s and early 1990’s, making use of new advances in empirical economics, research into Wagner’s
hypothesis underwent an exciting new phase of testing. But in the absence of a settled agreement about Wagner’s hypothesis, research activity has again abated.

In the late 1990’s, however, a new set of translations of Wagner’s work were produced by (Biehl 1998). This has permitted a more comprehensive account of Wagner’s hypothesis to be established in the English speaking literature. The current work is motivated by a need to bring together the benefits of these new translations of Wagner as well as developments in economics, including but not limited to econometrics. In so doing, the paper builds on a proposition first suggested by (Gupta 1967) that in terms of the state as a fiscal institution, government activity as a proportion of national income can understood through a stylised process similar to that of a consumption function.

The remainder of the paper is structured as follows. The next section sets out a re-statement of Wagner’s Law, making use of the new translation. Section 3 develops this into a testable model. Section 4 describes the data and summary statistics, followed by the model estimation and results. The paper concludes with some comments about the implications of these results and directions for future research in the area.

**Wagner’s Law – A brief restatement**

A comprehensive review of the literature on Wagner’s Law is beyond the scope of the present paper. Instead, the restatement offered here draws mainly on key elements of Wagner’s hypothesis, now available in English from his own writings. Based on these, we offer the following as key elements of the Wagnerian project.

After observing that economic growth amongst industrialising countries in the late nineteenth century was being accompanied by a growth in the role of state activity, Wagner suggested that there were structural reasons that state activity grew during industrialisation. On the basis of this observation he suggested that this tendency may be more than simply accidental, and indeed he argued that there were good reasons why this might be so. In particular, Wagner hypothesised that,

“…there exists in the state a clear tendency for an expansion of public, respectively State activities together with the progress of the economy and of culture... This expansion appears as something so regular and can so clearly be traced back to its inner causes and prevailing conditions that it seems to be permitted to speak of a “law” of an increasing expansion of public…especially State activities in the sense in which this term is being and justifiably can be employed in the field of social and economic phenomena (Wagner 1911, trans. Biehl 1998, 107)”.

Two things are worth noting here. First, this ‘law’ has generally been interpreted as implying an increasing share of state activity in the economy rather than the growth of activity per se. Biehl has noted that the generally accepted interpretation of Wagner’s Law is that government share of economic activity will increase as national income grows. “In macroeconomic understanding, this ‘law’ means an absolute and even relative expansion of public, in particular State and community forms of organization within a national economy (p.107)”.

Second, in measuring the growth of the relative share of state activity, fiscal expenditure has generally been used as the proxy. While Wagner noted that state activity can take both fiscal and regulatory dimensions, almost all subsequent studies have focused on the fiscal aspects alone. In part, this is because of the daunting problems of measuring regulatory activity over...
time or across countries. However, it needs to be recognised that all tests of Wagner’s Law using fiscal measures alone are partial tests.

In testing Wagner’s Law in fiscal terms, it has been widely understood that the demand for state expenditures is income elastic. The problem of testing the Law has then often been directed at elaborating the nature of that elasticity.

A key problem here, however, is that while Wagner recognised that state activity would increase faster than the growth in income during industrialisation, the rate of growth cannot be sustained forever so as to totally subsume private activity. For instance, he noted that while there must be some limit to government activity, “… a proportion between public expenditure and national income which may not be permanently overstepped.” (Wagner trans. Cooke 1958, 8). Wagner was, however, sceptical of attempts to specify in advance what that limit would be.

The starting point of our study is therefore to reject a priori any notion of an optimal size of government in capitalist economies, and to make the case for a possible non-linear path for public sector growth. This is not simply an approach of theoretical agnosticism, but a reflection, pace Wagner, that there probably cannot be a meaningful theoretical proposition about optimality. The re-statement offered here therefore suggests that any model of Wagner needs to allow for a limit to the share of government expenditure, and that this limit needs to be determined within the model.

Testing of Wagner’s Law has been quite extensive, and while many studies have found support for the general tendency of state expenditure to grow with income, the Law has not been without criticism. The two most notable critiques for our purpose are (Peacock and Wiseman 1961) and (Henrekson 1988 and 1993).

Peacock and Wiseman rejected both the inherent (organic) theory of the state implicit in Wagner, and the mechanism by which any expansion in public sector activity would take place. In short, they suggest that state activity may increase, but not for the reason or in the way Wagner hypothesised. They used this critique to develop an alternative theory (the displacement hypothesis), and since then there have been several other theories offered for observed increases in the state activity (such as Fiscal Drag (Wilenski), Degree of Openness Hypothesis (Cameron), and Public Choice theory (Buchanan)). While these rival explanations have emerged, Wagnerian-type explanations remain still the most widely tested explanations for the relative growth in state activity.

Henrekson, on the other hand, working within Wagner’s Law, was critical of many of the testing procedures used. He noted that many tests of the Law were faulty and that any relationship found between income (as a proxy for industrialisation) and state fiscal activity as an absolute measure were likely to be based on spurious regressions when using aggregate time series data. On this basis, he suggested that the Law may not be as robust as research had established. For Henrekson, this critique extended to a repudiation of virtually the whole project of testing Wagner’s Law. Further, (Slemrod 1995), (Agell, Lindh, and Ohlsson 1997) and (Fölster, and Henrekson 1999) pointed to the issue of a possible endogenous regressor problem in empirical tests of Wagner’s Law through the simultaneous determination of the key variables in the Wagner relationship. This criticism is based on the view that for some within endogenous growth theory at least there is thought to be a possible causal relationship from government share in the economy to economic growth. The paper will return to this
issue in the next section. For the moment, it needs to be noted only that using share data instead of fiscal outlays is one path through Henrekson’s critique along with appropriate econometric testing methods, and that there remains considerable debate about the nature of any possible endogeneity issues even within growth theory.

In the aftermath of these critiques, however, it is clear that any testing of Wagner’s Law needs to deal with the potential for spurious regressions and possible biased estimation through the simultaneous solution of model variables. The next section sets up a testable model of Wagner’s Law that incorporates the key elements of the re-statement offered here.

**A Model of Government Expenditure**

Traditionally Wagner’s Law has been modelled in two ways. The most common is a linear model of the logarithm of government expenditure (GE) on the left hand side and the logarithm of real gross domestic product (GDP) on the right hand side. Sometimes the logarithms of the per capita ratios are modelled instead.

This tradition was set by (Peacock and Wiseman 1961), (Gupta 1967), (Goffman 1968), Goffman and Mahar 1971) and (Man 1980), and it has been followed by others, usually with time series analysis of specific economies, but sometimes with pooled time series across countries. Ignoring the problems of non-stationary variables when modelling GE against GDP, the double log specification seems virtuous in that it gives a constant elasticity score of GE with respect to GDP. However, there are some problems with such a model. Whilst constant elasticity is convenient, is it realistic? A constant elasticity greater than unity would mean that as GDP grows the share of GE in GDP could exceed one, which is a logical impossibility. If the elasticity is less than unity as GDP grows the share of GE in GDP falls toward a limiting value of zero. Further, because GE and GDP may exhibit strong simultaneity there is an identification problem with the log linear model, (Slemrod 1995). The alternative specification, which avoids this endogeneity problem, is to model GE as a share of GDP (Pryor 1968) and (Musgrave 1969). Share is estimated as a linear function of per capita real GDP. The clear problem here is that an unbounded linear relationship leads to the possibilities that predicted share could be greater than one or less than zero. (Gupta 1968) was an early attempt to estimate non-linear relationships to test the Wagner hypothesis, but this did not address the issue of estimating a form that places sensible boundaries on government share.

To repeat, the version of Wagner’s Law retrieved earlier states that the importance of government in the economy increases with the growth of that economy. If government is measured by its expenditure then, following Wagner, if GE grows proportionately more than real GDP then the share of the GDP attributed to government must increase. However, this cannot increase without limit and the share must reach some maximum at a value less than one. Wagner was clear that government could not expand without limit, (Biehl 1998). Therefore modelling government through the fiscal share of GDP, and avoiding potential identification problems requires a model based on a function with a domain \((-\infty, \infty)\) and a range \([0,a]\), where \(a<1\). That is:

\[
(\gamma|x) \ G(x,\theta) ; \quad (1)
\]

where:

- \(G(-\infty) = 0\) and \(G(\infty) = a\); and
- \(\theta\) is a set of unknown parameters, including \(a\), which govern the function \(G\).
A candidate for the function $G(\ )$ is the logistics function:

$$y = \frac{a}{1 + be^{-xc}} + \epsilon; \quad (2)$$

where

- $y$ is the ratio of government expenditure (GE) to gross domestic product (GDP);
- $x$ is real GDP per capita;
- $a$, $b$, and $c$, are unknown parameters, but with $a<1$; and
- is a stochastic disturbance and $\sim iid(0, \sigma^2)$.

(Florio and Colautti 2003) model the share of public expenditures using a logistics equation for five countries. However, they estimate the expenditure share as a function of time, so that in terms of a test of the Wagner hypothesis there must be an implicit assumption that per capita GDP increases over time and that time proxies for real per capita GDP. A more sensible and direct test would be to estimate equation (2) with real GDP per capita as the right hand side variable.

An alternative to the logistics function of (2) is the Gompertz function. Traditionally, this has been used in growth models (Seber and Wild, 2003), where the right hand side variable is time. However, there is no reason why the right hand side cannot be taken up with conditioning variables other than time, and in the case of the Wagner hypothesis, the variable $x$ would be some measure of economic development:

$$y = a \exp[-\exp(-c(x - b))] + \epsilon. \quad (3)$$

In (3) $y$ is GE/GDP, $x$ is GDP per capita and the parameters $a$, $b$ and $c$ serve similar functions to their notational counterparts in (2).

Figure 1 illustrates both of these sigmoid functions with the logistics equation, in panel A, and the Gompertz curve, in panel B. The first derivative of the logistics curve is graphed in panel C and that for the Gompertz in panel D. Both curves were drawn over the domain of $x$ $[-100,100]$, with $a = 1$, $b = 1$ and $c = 0.05$.

Whilst panels A and B show that the range of $y$ is $[0,1]$ for both functions, panels C and D show that in comparison to the logistics, the Gompertz curve is skew symmetric around the $y$ axis.

**Figure 1: Logistics and Gompertz Curves**
Wagner’s Hypothesis of Public Expenditure Growth –
A Re-statement and Empirical Test

Panel C: Logistics First Derivative  Panel D: Gompertz, First Derivative

Following the restrictions on the range of $y$ in (1) the upper and lower bounds of the range of $y$ in (2) and (3) are:

$$y = \begin{cases} a & \lim_{{x \to \infty}} x \\ 0 & \lim_{{x \to -\infty}} \end{cases}$$

(4)

There are two practical issues with these bounds. Firstly, $a > 1$ is possible in (2) and (3). This leads to two alternatives. Firstly, to estimate any empirical model associated with the logistics and Gompertz curves with the restriction $a < 1$. However in terms of a test of the Wagner hypothesis, this would be Procrustean. Alternatively, an estimate of both empirical specifications could be attempted without restriction to test to see if $0 < a < 1$.

Additionally, it could be argued that it is not possible to have negative real GDP, which would be a requirement for government share to approach zero in both specifications. However, this is easily overcome by using the common sense argument that government share will never be limited to zero. Even in early developing economies some government is required, giving a positive government expenditure share and an effective lower bound to the range of $y$ when GDP per capita approaches zero. This is the intercept of the graph with the $y$ axis panels A and B of Figure 1 and this will be determined by the data in any empirical model where the parameters $a$ and $b$ and $c$ are freely estimated.

If equations (2) and (3) are used as tests for the Wagner hypothesis, then one would expect that parameter $c$ would be significant and positive. This parameter controls the rate of increase of $y$ with $x$ and it would have to be positive with $x$ as GDP per capita and $y$ as government expenditure share of GDP in Wagner economies. Further, one would expect the estimate of $a$ to be significant and fall between zero and one. Estimating the Gompertz along with the logistics function allows for the possibility that the estimated Wagnerian relation is skew symmetric. This would manifest itself in clear differences between the estimates of the two different models. The logistics and Gompertz specifications could be estimated using short time series data pooled across a large number of economies.

Prior to estimating specifications (2) and (3) as suitable tests of Wagner’s hypothesis, the issues of spurious regression and simultaneity must be addressed. Following (Henrekson
1988), long time series such as the logarithm of government expenditure and the logarithm of GDP per capita are unlikely to be mean reverting. They are likely to be integrated series, possibly to order one and analysis of such time series using ordinary least squares will be subject to spurious regression. However, it must be clear that government share, measured by the ratio of government expenditure to GDP must be stationary. As a share measure, it is limited to the interval [0,1] and therefore in time series, it must converge to a long run mean with a stable variance. That is, it must be co variance stationary. Notwithstanding this, short time series, pooled over a large number of countries allow empirical analysis with temporal data, but avoid the problem of non-stationary series. Even though in principle one would expect government share to be stationary in the log run, modelling specifications (2) and (3) by non-linear least squares using a short wide panel of data over many countries avoids potential problems of non-stationary data.

Modelling with government fiscal share of GDP as a measure of government in the economy overcomes endogenous regressors brought about by the simultaneous solution of government expenditure in levels and GDP. However there is the possibility, alluded to in the previous section, with the simultaneous solution of government share and GDP through the endogenous growth model, that there is a possible causal relationship flowing from government share to GDP. Particularly, (Agell, Lindh, Ohlsson 1997) stimulated a debate on the empirical analysis of government expenditure share and GDP based on the issue of simultaneous determination. (Fölster and Henrekson 1999) and (Fölster and Henrekson 2001) are more sanguine about the possibilities of linear models with cause flowing from government share to growth of GDP using fixed effects panel models. They argue that the fixed effects specification overcomes any problem of simultaneity brought about by the Wagner hypothesis where the causal link is from GDP in levels to government share. It is not the place of this article to deal with this debate in detail. However, recent empirical outcomes (Agell, Ohlsson, and Skogman Thoursie 2006), using panel data, point to the fragility of any causal relationship from government share to economic growth. This is an indication that estimation of models (2) and (3) may be used as a test of Wagner’s hypothesis, where an estimated parameter $c > 0$ is consistent with the Wagner hypothesis and an estimate parameter $a < 0$ is indicative of some maximum share of government in the economy. Furthermore, (Slemrod 1995) stated that whilst some of those who wished to empirically test the relationship from government expenditure share to growth were reticent to do so because of issues of endogeneity, those who investigated the reverse (the Wagner) relationship were perfectly prepared to do so. This paper follows in that latter tradition.

The Data and Some Summary Statistics

Prior to examining the methods used in and the results of the empirical analysis, this section examines the pooled data used. It describes the data sources and how the data were transformed into variables suitable to test the Wagner hypothesis and to enable international comparisons of those variables.

The International Monetary Fund (IMF) International Finance Series (IFS) is the data source for:
Nominal Government Expenditure in National Currency;
Nominal GDP in National Currency;
GDP Deflator, Base Year 1995; and
Population;
The data source for the 1995 purchasing power parity rate exchange rate was the Penn World Tables V. 6.1. These tables do not report the rate directly. However, the tables contain the Price Level of Gross Domestic Product in US Dollars and the Exchange Rate (local currency to one unit of the US dollar). Following the data appendix to the Penn World Tables, the Purchasing Power Parity in Domestic Currency per $US for GDP may be obtained by dividing the Price Level of Gross Domestic Product in US Dollars by 100 and multiplying by the Exchange Rate.

These data were then used to estimate data for the models of (2) and (3) for the period 1990-1997. The value of government share was estimated as:

\[
\text{Nominal Government Expenditure in National Currency} \quad \text{Nominal GDP in National Currency}
\]

Because this share is a rate, providing the definitions of expenditure and GDP are comparable between countries, international comparisons of share can easily be made. Clearly, international comparison of real GDP per capita is less easy, requiring conversion from domestic currency to an acceptable common currency unit. The common currency unit chosen was constant US dollars, where conversion from domestic real currency units to constant dollars was by way of a base year purchasing power parity exchange rate.

The value of GDP per capita in 1995 prices expressed in 1995 purchasing power parity dollars was estimated as:

\[
\text{RGDPUS95 = } \frac{\text{RGDP95/Purchasing Power Parity in Domestic Currency per $US for GDP}}{\text{Population}}
\]

where:

\[
\text{RGDP95} = \frac{\text{Nominal GDP in National Currency}}{\text{GDP Deflator Base Year 1995}}.
\]

Because of significant gaps in the data, the number of countries is restricted to 88. The data were taken annually for the years 1990-1997. This period was determined by two factors. Missing data, data for some economies, usually the transition economies were not available prior to 1990. Similarly, data were only available to the year 2000 mainly caused by missing observations over some subsequent years for some notable western European economies. Second it was decided not to extend the annual time series much before the base price year of 1995, because of the trade-off between added observations and decreasing price index accuracy over the many countries involved.

From the sample of 704 observations (88×8) for the full pooled analysis the effective sample was 674 observations, thirty observations from several differing countries were lost due to missing data. That is the sample comprised an unbalanced pooled data sample.

Summary statistics for government share and real GDP per capita in 1995 purchasing power parity dollars are given in Table 1. The relationship between the mean values for both variables and the minimum and maximum scores reflect the international distribution of income and both variables are skewed with a preponderance of scores toward the lower ranges.
Table 1: Summary Statistics

<table>
<thead>
<tr>
<th></th>
<th>MEAN</th>
<th>ST.DEV</th>
<th>MINIMUM</th>
<th>MAXIMUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>GE/GDP</td>
<td>0.27652</td>
<td>0.10530</td>
<td>0.05900</td>
<td>0.58460</td>
</tr>
<tr>
<td>GDP/Cap</td>
<td>8653.2</td>
<td>7449.5</td>
<td>648.42</td>
<td>29873.</td>
</tr>
</tbody>
</table>

Model Estimation and Results

Equations (2) and (3) were estimated using non-linear least squares. The numerical procedure used was the Gauss Newton algorithm and the initial estimation was undertaken in GAUSS V.5.0 (Aptech 2002). Standard errors were estimated using a parameter covariance matrix estimated as the outer product of the Z matrix. These results were verified in estimation by using SHAZAM V. 9.0 (Whistler et al. 2002).

The estimated errors for both, equations were heteroskedastic using standard tests. Because of the implications for hypothesis test, the standard errors using (White 1980) robust parameter covariance matrix, but with the (Hinkley 1977) degrees of freedom adjustment were estimated. These robust standard errors are reported along with the usual standard errors in Table 2. Fortunately, there are symmetric outcomes to the significance tests using the usual and robust standard errors.

Table 2 gives the results of the non-linear estimation of equations (2) and (3). Importantly, all estimated parameters are significantly different from zero at the five per cent level. Moreover, using one tail tests and robust standard errors with the null hypothesis $H_0: \hat{\theta} \geq 1$, against the alternate $H_A: \hat{\theta} < 1$ and $H_0: \hat{\theta} \leq 0$ against $H_A: \hat{\theta} > 0$ one can reject the null hypothesis for both the logistic and Gompertz specifications, which is consistent with $0 < \hat{\theta} < 1$.

Table 2: Estimated Parameters, Logistics and Gompertz

<table>
<thead>
<tr>
<th>Equation</th>
<th>Logistics</th>
<th>Gompertz</th>
</tr>
</thead>
<tbody>
<tr>
<td>$a$</td>
<td>0.34196</td>
<td>0.34309</td>
</tr>
<tr>
<td></td>
<td>(0.01012)</td>
<td>(0.01123)</td>
</tr>
<tr>
<td></td>
<td>{0.01122}</td>
<td>{0.01256}</td>
</tr>
<tr>
<td>$b$</td>
<td>0.74924</td>
<td>-3442.46</td>
</tr>
<tr>
<td></td>
<td>(0.08038)</td>
<td>(1073.51)</td>
</tr>
<tr>
<td></td>
<td>{0.07397}</td>
<td>{1056.63}</td>
</tr>
<tr>
<td>$c$</td>
<td>0.00019</td>
<td>0.00016</td>
</tr>
<tr>
<td></td>
<td>(0.00004)</td>
<td>(0.00004)</td>
</tr>
<tr>
<td></td>
<td>{0.00004}</td>
<td>{0.00004}</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.20</td>
<td>0.19</td>
</tr>
</tbody>
</table>

The $R^2$ of the fitted and actual GE/GDP for each sample estimate is given in the last row of Table 3. Whilst these scores may appear low, it must be recalled that only one independent variable was included in both specifications. In this context, the goodness of fit across a very wide cross section of countries is remarkable, considering the great many others, potentially country specific, determinants of expenditure share. This combined with the overall significance of parameters $a$, $b$ and $c$ indicates that equations (2) and (3) may be reasonable replications of that process which generated the GE/GDP ratio.
Figure 2 gives the “fitted and actual” for the estimates of the logistics equation given in row two of Table 2. There is little point in including the fitted values for the Gompertz equation of column three as these values at the scales in the graph virtually replicate the logistics fitted values.

**Note** that in comparison to Panels A and B of Figure 1, the estimated curve of Figure 2 has no point of inflection. This should not be unexpected. Even the least developed of economies requires some significant aggregate decision making. Further, Figure 2 is consistent with the Wagner hypothesis. Government share in GDP is growing faster than developed economies. Therefore low and medium income economies exhibit a fast rate of growth of government expenditure relative to the development of income. Post industrial economies approach the asymptotic level of government share. That is, for these economies the expansion of fiscal government is relatively less rapid and simply keeps pace with the expansion of the economy. However, because the point of inflection is absent, it is not possible to discriminate between the logistic and the skew symmetric Gompertz curves and both are equally likely as candidates for the true data generating process.

Table 3 gives the estimated marginal effects, which is the first derivative of GE/GDP with respect to GDP per capita. Because of the scale of GDP per capita the first derivative is multiplied by 100 and the marginal effect is the increase in GE/GDP brought about by a US $100 increase in real GDP per capita. The marginal effect is computed for the two different specifications, with the logistics in column three and the Gompertz in column four of the table. Row two gives the marginal effect at mean GDP per capita and subsequent rows give the marginal effect at the 25%, 50% and 75% range of GDP per capita. The relevant GDP per capita scores are given in column two of the table.
Table 3: Estimated Marginal Effects

<table>
<thead>
<tr>
<th>Equation</th>
<th>GDP/Cap</th>
<th>Logistics</th>
<th>Gompertz</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>8770.93</td>
<td>0.00071</td>
<td>0.00068</td>
</tr>
<tr>
<td>25%</td>
<td>2565.95</td>
<td>0.00140</td>
<td>0.00144</td>
</tr>
<tr>
<td>50%</td>
<td>5985.14</td>
<td>0.00102</td>
<td>0.00097</td>
</tr>
<tr>
<td>75%</td>
<td>14576.66</td>
<td>0.00028</td>
<td>0.00028</td>
</tr>
</tbody>
</table>

The results of Tables 2 and 3 are consistent with the hypothesis that the share of GE in GDP increases as GDP per capita grows, and that this share approaches a limit that is less than one. In Table 2, all the estimated parameters for both specifications using either the usual or the robust standard errors are significantly different from zero. Particularly, the parameter $c$ is significant in both cases and is of the right sign, which is consistent with GE/GDP increasing with GDP per capita. Further, the estimated parameter $a$, the upper bound on GE/GDP, for both specifications is significantly different from zero and one. This is consistent with an upper bound and that upper bound is less than one. The estimated lower bound on GE/GDP is 0.201 and 0.194 for the logistics and Gompertz equations respectively.

These results carry over to Table 3. Here, for example, the marginal effect at mean GDP per capita for the logistics equation should be interpreted as an increase in GE/GDP by 0.00071 with a $100 increase in real GDP per capita. As would be expected from Figure 2 the marginal effects of Table 3 are high for low GDP per capita scores and are falling as GDP per capita increases. That is the share GE/GDP increases, but at a decreasing rate as GE/GDP approaches an upper limit.

These results are consistent with an interpretation of Wagner’s Law which says that fiscal government, as a share of GDP will grow as the economy grows. Further, the results are also consistent with an interpretation of the Wagner hypothesis which places a limit on the share of fiscal government in the economy which is less than one. However, it is not possible to discriminate between the logistics and Gompertz specifications as replications of the data generating process.

**Summary and Conclusion**

The paper began by making a case for a restatement of Wagner’s hypothesis. Particularly, stemming from a recent translation of Wagner’s writing, the empirical analysis in the paper is founded on a more realistic model. This model has the virtue that it places sensible bounds on government in the economy when measured as the share of fiscal government in national income. Wagner himself thought that even though there is a strong relationship from economic development to government in the economy, there will be a natural limit to the share of fiscal government in the economy. Wagner did not elaborate on this natural limit and was reluctant to specify the limit a priori. Unlike previous empirical studies of the Wagner hypothesis, this paper incorporates an empirical model based on sigmoid functions which naturally find an upper limit to government share in the economy. That is, in the spirit of Wagner, the data on actual government shares is allowed to determine some upper bound on fiscal government.

The empirical outcomes are consistent with Wagner’s hypothesis. It is not possible to dismiss the hypothesis that there is a positive relationship between the development of the economy.
in terms of per capita GDP and the share of government expenditure in the economy. Further, the results are consistent with a clearly identified upper limit to that share.

By utilising the limited time series associated with short, wide panels, the analysis has circumvented the problems of spurious regression associated with long time series. Using pooled time series in this way facilitates the use of least squares methods with temporal data where the relationship modelled is inherently non-linear.

The analysis is not yet able to exploit the full benefits of panel data in terms of identifying country specific effects either as a fixed effect or a random component. Whilst the former would be particularly useful, unfortunately non-linear fixed effects specifications in panel are not possible because of the incidental parameters problem (Cameron and Trivedi 2005). Until that issue is resolved a useful avenue for further empirical research, which may allow the exploitation of panel models, but retain the asymptotic properties of the Wagner relation, might be through spline regression methods.

Further, it is not currently possible to incorporate Wagners’s view, revealed in modern translation, that the importance of the state in the economy will not manifest itself solely in fiscal terms, but also in terms of regulation. This again is a direction for further work. The regulatory activities of state may be complementary or an alternative to the fiscal state. Thus there is potential then for different levels of the regulatory state to shift up or down the fiscal relationships identified in this paper. If it is possible to find a reasonable numerical measure for the strength or degree of regulation then a useful extension to the empirical analysis of Wagner’s state might well be to relate this to movements of the relationship between the fiscal state and economic development.

References


Prezworski, A. 2004. “Capitalism, development and democracy.” Revista de Economía Política 24:


Utilizing Government Innovation Programs to Increase the Innovative Capacity of Industrial Firms and Universities

ABSTRACT

Firms consider the acquiring of external knowledge as an important element to increase their internal capabilities and enable them to become more innovative in the globally competitive market place. This study investigates the impact of special government funded programs that focus on building collaborative research and development projects between universities and firms. Results show that such programs can help industrial firms access new knowledge, attract highly qualified personnel, establish networks with academia, and share financial risk. In contrast, academic researchers at the university realize other benefits from such programs, including opportunities to conduct reputable research and publish the findings, explore new research areas, and increase the focus on applied research. Research findings create an important motivation for policy makers to increase innovative capacity of firms.

Keywords: innovative capacity, university-firm collaboration, internal capability, government funded programs, external knowledge.

INTRODUCTION

Knowledge acquired externally has been identified as a key competency for sustained success in global competitive markets (Jones and Macpherson, 2006; Laursen and Salter, 2006; Conner and Prahalad, 1996; Hamel, 1991). As competitive pressures grow, firms are faced with increased challenges to acquire the time and resources to develop internally the knowledge needed to achieve competitive advantage through intensive internal R&D activities (Lambe and Spekman, 1997; Swan and Allred, 2003). Firms that are open to exploring opportunities to gain external knowledge are more likely to build and sustain better innovative capabilities, whereas those that are internally focused may miss important opportunities because specific knowledge sources may be available only in the external environment (Laursen and Salter, 2006). Firms build relationships with other organizations to obtain external knowledge (Inkpen and Crossan, 1995).

Most previous studies on collaboration by firms to access external knowledge focus on firm-to-firm collaboration by building different strategies, such as joint ventures (Inkpen and Crossan, 1995), strategic alliances (Sampson, 2007; Larsson et al., 1998), and joint projects (Mothe and Quelin, 2000). However, the focus on university-firm collaboration has started to show more promising results (Fontana et al., 2005), especially in the enhancing of the industry R&D activities (Bekkers and Freitas, 2008). Interestingly, most research on university-firm collaboration refers to the process of knowledge transfer from the university to the firm (Landry et al., 2007; Cohen et al., 2002).
In general, previous studies have focused on emphasizing the importance of government policies in establishing technology programs that support university-firm collaboration, in order to increase the industrial innovative capacity (Al-Kwifi, 2012). The study presented here explores the effect of special government programs that focus on building collaborative research and development projects between universities and firms in order to enhance the innovative capabilities of both partners, and on sustaining this collaboration over a long time by funding future projects between partners. Whereas increased global competition in the market place and fiscal constraints have motivated policymakers to encourage universities and research centers to support the industrial innovation process and increase technology commercialization activities.

In the US, industry support for university research projects increased from $630 million in 1985 to $1.9 billion in 1988. In addition, relations between firms and universities have been enhanced by a 60% increase in the number of university-firm R&D centers in the 1980s (Cohen et al., 1998). Moreover, the number of the technology transfer offices at universities increased eightfold between 1980 and 1995 (AUTM, 1999). Therefore, being strongly aware of the influence of university research on increasing the innovative capacity of firms is central to guided policy discussions aimed at finding the best programs, those that enhance the innovation process itself.

**LITERATURE REVIEW**

During the past three decades it was difficult for researchers concerned with the study of technological advance to gain a clear understanding of the impact of university research on a firm’s innovative capacity. The focus in the past leaned toward the concept of “demand pull” from “opportunity push,” where the push for new opportunity influenced the adoption of new technological knowledge generated at universities. However, recent research by many scholars has demonstrated the significant impact of university research on firms’ technological advancement – beyond the old argument about demand pull versus opportunity push (Cohen, et al., 2002, Narin et al., 1997).

In 1991, Mansfield conducted a survey on 76 firms encompassing various industries such as electrical equipment, metals, drugs, oil, information processing, and manufacturing. The findings concluded that 10 percent of new products and processes would have been delayed getting to market by at least one year without the support of university research. Subsequently, Narin and colleagues (1997), using firms’ patent citations to the literature generated in universities, found that the relationships between firms’ R&D and universities’ research centers increased substantially between the late 1980s and mid-1990s, leading to significant improvements in firms’ technological capabilities. In contrast, some studies found that university research makes little contribution to industrial R&D activities (Nelson, 1986; Klevorick et al., 1995) when assessed relative to other sources of information within the industrial chain – that is, other firms in the industry, customers, and suppliers.

Cohen et al. (2002) used the Carnegie Mellon Survey to investigate the influence of public research (i.e. university and government R&D labs) on industrial R&D activities. They found that public research has a significant impact on industrial R&D activities in certain industries, especially in pharmaceuticals, and this impact becomes important across a wide spectrum of the manufacturing industry. Consistent with previous research, they concluded that the influence of public research on industrial R&D varies across industries. They suggested that public research is used frequently to address existing problems and requirements to explore
new research efforts. The findings also showed that the key channels used to transfer public research to firms include published papers, conferences, consulting, and informal interactions.

Providing an empirical evidence to define the determinants of research collaboration between universities and firms, Fontana et al., (2006) suggested that large firms (those with over 1000 employees) and those with intense R&D activities are more likely to collaborate with universities, possibly due to their internal absorptive capacity to capitalize on findings that result from such collaborations. In contrast, small and medium enterprises conduct a screening of publications before signing an agreement with a university, in order to determine the right matching in objectives and capabilities of both partners.

The concepts of organisational resources and dynamic capabilities are used to explain why a firm would build a collaborative research and development project with a university. Eisenhardt and Martin (2000) argue that firms, particularly those operating in a rapidly changing environment, need to possess internal ‘dynamic capabilities’ to be more innovative and achieve competitive advantages. These capabilities might not be available internally, while producing them internally can be expensive. Therefore, firms often seek external knowledge and apply it internally to secure competitive advantage.

**COLLABORATIVE RESEARCH AND DEVELOPMENT PROGRAM**

The Collaborative Research and Development (CRD) Program was established by Natural Sciences and the Engineering Research Council of Canada (NSERC). Its main objective is to help companies operating in Canada access the special knowledge, expertise, and resources available at Canadian universities and to develop highly qualified graduates through exposure to technical skills available in industry. Specifically, the CRD program motivation is: (1) to promote the establishment of partnerships between universities and industrial firms so as to enhance the process of knowledge creation and dissemination; (2) to produce suitable numbers of highly qualified personnel with the skills needed by industrial firms; and (3) to increase the innovative capacity of firms and their capability to utilize university research to improve the competitiveness and productivity of firms.

The CRD program provides financial grants for focused projects with specific short- to medium-term objectives, and sometimes for long-term projects. Most grants cover a period of one to three years, except for special projects, which may be covered for up to five years. Projects are not funded if they use mostly existing knowledge or deliver routine consulting services and analysis. The industrial partner pays at least 50% of the cost of a research project, with the rest coming from CRD grants.

Any university researcher at a Canadian academic institution can submit an application to CRD in collaboration with a firm as a scientific project partner. All applications must demonstrate strong evidence of detailed planning and a complete budget. A special committee conducts a peer review to ensure that each proposal is evaluated based on the program’s eligibility criteria: scientific merit, research capability, industrial relevance, firm’s support, and building highly qualified personal. In 1999, 147 grants were awarded, and in 2008, 262 were awarded – with an average success rate of 83%. Every few years the RCD program is reviewed by NSERC by conducting an in-depth evaluation to assess the relevance and impact of the grants, and to determine whether the program continues to be consistent with government strategy in addressing the needs and priorities of industry and universities.
The last evaluation report covers the 1997-2008 period, the period used in conducting this study.

**METHOD**

The CRD program is selected to conduct this study because it is focused on university-firm collaboration relating to well-defined projects and provides considerable long-term benefits to industrial partners. Unlike other programs, the CRD program is focused on achieving specific objectives for both partners. The program is highly pertinent to this study because it provides academic researchers with incentives to work with industrial partners and because it induces firms to collaborate in sharing financial costs and accessing state-of-the-art knowledge.

The CRD evaluation report for the 1997-2008 period was obtained from NSERC evaluation department (report CRD, 2010). This report describes 1,577 CRD grants that cover the sample examined; these grants include 1196 firms and 1078 academic researchers. Several firms and academic researchers have applied for more than one CRD grant during this period. The industrial firms are distributed over the following fields: Environment and Natural Resources; Food and Bio-Industries; Information; Communications; and Manufacturing.

The evaluation process is conducted using different lines of evidence to address the evaluation questions and indicators. Data are collected using the following methods: (1) review administrative files in database; (2) perform 35 interviews (7 key informants and 28 case-study informants); and (3) perform five web surveys. All questions and interview protocols were developed in consultation with senior management, CRD staff, and experts in university-industry partnerships.

Findings from the evaluation report are used to support the objective of the paper presented here; this is achieved by showing the steps by which firms and academic researchers have increased their internal capabilities, and various mechanisms used to transfer the external knowledge. We present results as an aggregate value of each item answered by participants, where participants can select more than one answer for a question.

**Results**

**Impact on Industrial Firm**

The primary recipient of CRD advantages is the industrial partner. The gains can be divided into different types of impact: (1) impact on firm innovative capability, (2) impact on firm competitiveness, (3) impact on R&D activities, and (4) impact on capacity building. Each type is influenced largely by engaging the academic partner in a collective learning process to transfer the new knowledge generated at universities. Table 1 shows that the successful transfer of knowledge to industrial partners occurs mainly by direct interaction (formal or informal) with academic researchers, such as through emails, phone calls, and meetings – in addition to internal reports and formal publications. In addition, 19% of industrial partners reported that hiring highly qualified personnel who participated in the project was an important means of transferring research results to their firms. Other forms of knowledge transfer to firms include accessing the research portal available on the website for special members and co-authoring publications with academic researchers – 50% of partners co-authored publications with the academic researchers.
Table 1  Methods used for knowledge transfer to industrial partner

<table>
<thead>
<tr>
<th>Method</th>
<th>% of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informal discussions and correspondence</td>
<td>79%</td>
</tr>
<tr>
<td>Reports that were used internally</td>
<td>76%</td>
</tr>
<tr>
<td>Formal publications (e.g., journal articles, conference papers)</td>
<td>63%</td>
</tr>
<tr>
<td>Direct involvement of industrial partner in the project</td>
<td>54%</td>
</tr>
<tr>
<td>Hiring of highly qualified personnel who participated in the project</td>
<td>19%</td>
</tr>
<tr>
<td>Other</td>
<td>11%</td>
</tr>
</tbody>
</table>

Impact on firm innovative capability. The transfer of research results has increased the knowledge base of the industrial partners, with 92% of them suggesting that they obtain new knowledge through a CRD project. In fact, the increased knowledge base of the organization was the most highly rated impact of the CRD project, as reported in Table 2. It illustrates that 60% of firms reported impacts on products and services, whereas 53% stated actual impacts on internal processes. The impacts on processes were related with reduced operating costs, material or energy in 15% of CRD projects, which can be inferred as improved productivity.

Table 2  Impact on industrial partner innovative capability

<table>
<thead>
<tr>
<th>Impact</th>
<th>% of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased knowledge base of organization</td>
<td>85%</td>
</tr>
<tr>
<td>Impact on products and services</td>
<td>60%</td>
</tr>
<tr>
<td>Impact on processes</td>
<td>53%</td>
</tr>
<tr>
<td>Impact on productivity</td>
<td>45%</td>
</tr>
<tr>
<td>Other impacts (i.e. environment, social, health, regulatory, etc.)</td>
<td>46%</td>
</tr>
</tbody>
</table>

Impact on firm competitiveness. Data deliver evidence that 54% of participating firms increased their competitiveness through the CRD program. Table 3 reveals that industrial partners selected certain means that helped to increase their competitiveness. The CRD program assisted 24% of industrial partners to sustain a good position to their competitors. Another 17% of partners were able to generate benefits by increasing market visibility, and 16% had met the requirements of existing clients. Other benefits are recognized through an impact on firm profitability as a consequence of increasing market sales, entering new markets, and increasing market share. The growth in the competitiveness of industrial partners is a direct result of enhancing firm innovative capability, and thereby improving and/or developing new products, services, and processes.

Table 3  Impact on industrial partner competitiveness

<table>
<thead>
<tr>
<th>Impact</th>
<th>% of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowed the organization to keep up with its competitors</td>
<td>24%</td>
</tr>
<tr>
<td>Increased market visibility</td>
<td>17%</td>
</tr>
<tr>
<td>Met requirements of existing clients</td>
<td>16%</td>
</tr>
<tr>
<td>Increased profitability</td>
<td>11%</td>
</tr>
<tr>
<td>Allowed expansion to new markets</td>
<td>11%</td>
</tr>
<tr>
<td>Allowed the organization to maintain its profit margins</td>
<td>10%</td>
</tr>
<tr>
<td>Increased sales</td>
<td>8%</td>
</tr>
<tr>
<td>Increased market share</td>
<td>6%</td>
</tr>
<tr>
<td>Allowed the organization to expand</td>
<td>6%</td>
</tr>
</tbody>
</table>

Impact on firm R&D activities. More than 50% of the industrial partners stated, in their CRD evaluation report, the direct impacts on their firm’s R&D activities rather than on their R&D
investment. This was made evident by the motivation to conduct research collaboration with universities and build a mutual relationship to share knowledge, as shown in Table 4. The close relationship between industrial partners and academic researchers has shaped the way firms perform and manage their research R&D operations. This relationship motivated 46% of firms to adjust the nature of their research topics to fit certain requirements and specifications; as a consequence, 40% of firms started to utilize new effective methods to conduct their research and, in fact, due to CRD project requirements, started to realize that they had to change some administrative practices to increase the return on investment from CRD programs. This outcome leads to an increase in internal R&D spending and the number of employees in R&D, in addition to improving the management practices of R&D activities and expanding the research facilities.

**Table 4** Impact on industrial partner R&D activities

<table>
<thead>
<tr>
<th>Impact</th>
<th>% of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying out collaborative research with universities</td>
<td>62%</td>
</tr>
<tr>
<td>Selecting the nature of research topics</td>
<td>46%</td>
</tr>
<tr>
<td>Using new methods to conduct research</td>
<td>40%</td>
</tr>
<tr>
<td>Enhancing internal R&amp;D budget</td>
<td>39%</td>
</tr>
<tr>
<td>Managing better the R&amp;D activities</td>
<td>29%</td>
</tr>
<tr>
<td>Increasing the number of R&amp;D staff</td>
<td>23%</td>
</tr>
<tr>
<td>Creating plans to expand, and establishing a new research facility</td>
<td>19%</td>
</tr>
</tbody>
</table>

**Impact on firm capacity building.** CRD programs can benefit industrial partners in various aspects not linked to firm innovative capability, competitiveness, or R&D activities. Some additional benefits can be added to the previously noted benefits and create a significant value for the industrial partners. These benefits are presented in this section as value-added factors that support the overall capacity building in the firm. Table 5 shows that more than 50% of industrial partners opined that the CRD program had a direct impact on building a relationship with university researchers and networking with academic institutions. The unique nature of the relationship between industrial partners and academic researchers had encouraged participants in 40% of industrial partners to establish a new culture supporting innovation or sustaining the current culture. One third of industrial partners reported that they had obtained more access to highly qualified personnel who were working at universities; also, those partners praised the value of leaning from academic R&D and accessing their facilities.

**Table 5** Impact on industrial partner capacity building

<table>
<thead>
<tr>
<th>Impact</th>
<th>% of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship building / networking with academia</td>
<td>52%</td>
</tr>
<tr>
<td>Established new / maintained existing culture of innovation</td>
<td>40%</td>
</tr>
<tr>
<td>Increasing access to highly qualified personnel</td>
<td>33%</td>
</tr>
<tr>
<td>Learning about the benefits of academic R&amp;D</td>
<td>30%</td>
</tr>
<tr>
<td>Increasing access to advanced facilities or equipment</td>
<td>25%</td>
</tr>
</tbody>
</table>

**Impact on Academic Researchers**

As the industrial partners collected many benefits from RCD program, the participating academic researchers also generated a variety of impacts from the collaboration. The academic researchers’ benefits have two types of impact: (1) impact on academic researches’ research activities, and (2) impact on academic researchers’ academic activities. These benefits were achieved with the help of many factors, as listed in Table 6. Each factor shows
a different level of contribution; for example, close to 90% of academic researchers reported that availability of financial support from CRD and the good working relationship with the industrial partner were critical factors in reaching their objectives. Other academic researchers consider the direct participation of industrial partners, and the partners’ ability to contribute as an essential element to ensure that both partners have the same expectations to reach agreed objectives. Access to specialized facilities at the industrial partner site was reported by 59% of researchers as an essential factor, which could help them conduct advanced experiments not available at a university.

Table 6: Factors that helped academic researchers to achieve benefits from CRD program

<table>
<thead>
<tr>
<th>Factors</th>
<th>% of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of funding from CRD to conduct research</td>
<td>91%</td>
</tr>
<tr>
<td>Good working relationship with partner(s)</td>
<td>90%</td>
</tr>
<tr>
<td>Interest and involvement of industrial partner(s)</td>
<td>79%</td>
</tr>
<tr>
<td>University team and industry partner(s) having shared expectations</td>
<td>69%</td>
</tr>
<tr>
<td>Access to equipment and facilities in industry</td>
<td>59%</td>
</tr>
<tr>
<td>Expertise of industry partner(s)</td>
<td>55%</td>
</tr>
</tbody>
</table>

The degree of involvement of the industrial partner appears to have contributed to the impact of CRD on academic researchers through different elements, as illustrated in Table 7. It was critical for researchers to have the industrial partner available for consultation and provide feedback, as reported by 90% of researchers. This prompt consultation has an impact on resolving pressing issues and defining the next steps, so the research focus stays on the common objectives of both partners. Also, regular meetings with the industrial partner to discuss research findings and how to reflect their value to industry is described as important by 82% of researchers. Nonetheless, accessing specialized facilities and equipment at the firm’s site can help researchers conduct part of their research, which could not be done at the university campus – because of the absence of such facilities. This direct involvement between partners has a significant impact on transferring knowledge between partners and increasing the innovative capacity of both, and also enables them to address and find quick solutions to vital challenges faced by both partners. This is one of the key objectives of CRD grant program – that is, to help participants solve critical issues and increase their internal capability.

Table 7: Degree of involvement of industrial partner

<table>
<thead>
<tr>
<th>Involvement activities</th>
<th>% of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners were available for consultation</td>
<td>90%</td>
</tr>
<tr>
<td>Partners discussed the project regularly with the university team</td>
<td>82%</td>
</tr>
<tr>
<td>Partners provided facilities / equipment</td>
<td>58%</td>
</tr>
<tr>
<td>Partners were involved in the research</td>
<td>56%</td>
</tr>
</tbody>
</table>

Impact on academic researchers’ research activities. The CRD program has a direct impact on academic researchers by disseminating new knowledge among the research community through referred journals, conference presentations, and other types of publications. Table 8 shows that research findings produced from CRD programs were widely published through a variety of means, resulting in an average of 18 publications per grant. It was possible to send 3,558 conference papers from 94% of CRD projects and publish 2,420 journal articles from 90% of CRD projects. These publications enable academic researchers to boost their scientific capabilities and enhance their academic reputation in the scientific community, thereby increasing their ability to attract extra financial support from different funding sources.
agencies and conduct more research activities. It was also reported that 1,156 theses directly related to CRD projects had been completed by participating students.

Table 8  Impact on academic researches research activities

<table>
<thead>
<tr>
<th>Research activities</th>
<th>% of Projects</th>
<th>Mean output/ Project</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conference presentations</td>
<td>94%</td>
<td>7.9</td>
<td>3558</td>
</tr>
<tr>
<td>Refereed journal articles</td>
<td>90%</td>
<td>5.4</td>
<td>2420</td>
</tr>
<tr>
<td>Theses</td>
<td>89%</td>
<td>2.6</td>
<td>1156</td>
</tr>
<tr>
<td>Non-refereed journal articles</td>
<td>38%</td>
<td>1.4</td>
<td>652</td>
</tr>
<tr>
<td>Other (excluding patents / licences)</td>
<td>16%</td>
<td>0.9</td>
<td>397</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>18</strong></td>
<td><strong>8183</strong></td>
</tr>
</tbody>
</table>

Given the nature of a CRD project and its objective to achieve mutual benefits for a firm and university, it had an impact on the nature of research activities conducted at the university. For example, Table 9 illustrates that 81% of researchers reported that the focus of research activities had shifted toward meeting the need of their industrial partner, which in turn could lead to the exploration of new research avenues not addressed by the original CRD project, as stated by 77% of researchers. The mutual relationship built through CRD programs has a significant impact on the long-term success of academic researchers; it helps to increase applied exploration activities, increase the size of research teams by hiring additional qualified personnel, and access a ‘testing-ground’ for equipment and knowledge provided by an industrial partner.

Table 9  Impact on the nature of research activities

<table>
<thead>
<tr>
<th>Impact</th>
<th>% of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased focus on research areas related to industrial partner</td>
<td>81%</td>
</tr>
<tr>
<td>Led to explore new research area / project not addressed by the CRD grant</td>
<td>77%</td>
</tr>
<tr>
<td>Increased focus on applied research</td>
<td>72%</td>
</tr>
<tr>
<td>Increased fundamental knowledge base for academic researchers</td>
<td>71%</td>
</tr>
<tr>
<td>Led to new areas of fundamental research</td>
<td>70%</td>
</tr>
</tbody>
</table>

Impact on academic researchers’ academic activities. In addition to the impact on research activities, the CRD program has had another impact on academic researchers, particularly in their academic activities. Table 10 depicts the impact: 74% of researchers had the ability to provide their graduating students with relevant industrial experience by being involved in CRD project activities and, on occasions, by spending some time at the firm’s research lab. More than 50% of researchers were able to develop or improve the processing model used by the industrial partner, reflecting a deeper understanding of firms’ challenges and how to address them. Furthermore, 44% of researches stated that increased networking and collaboration with their industrial partners had improved their understanding of partner requirements, enabling both partners to improve the relevant processes and technologies.

Table 10  Impact on academic researchers’ academic activities

<table>
<thead>
<tr>
<th>Impact</th>
<th>% of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provided industrial relevant training opportunity for graduating students</td>
<td>74%</td>
</tr>
<tr>
<td>Developed or improve methodology / model used by industrial</td>
<td>55%</td>
</tr>
</tbody>
</table>
DISCUSSION AND CONCLUSION

Universities have a great incentive to produce knowledge and disseminate it externally. Firms cannot produce all their required knowledge internally to sustain a high level of innovative capacity. This study provides evidence that special government programs can increase the innovative capacity of universities and firms, where a CRD program is selected as an interesting example to create joint projects between universities and firms. Data from a period of ten years are used to prove that such programs provide considerable long-term benefits to both partners. Findings suggest that the CRD program largely responded well to the wide variety of needs of industrial partners – their innovative capacity and R&D activities had reached the objectives specified at the beginning of the joint project. The following objectives were most often reported by industrial partners as being met by the CRD program: (1) accessing new knowledge and expertise not available internally; (2) training local personnel in relevant areas of research and attracting highly qualified candidates as potential future employees; (3) establishing networks and developing partnerships with universities, thereby using them as external R&D research centers; (4) creating research foundation and early research expertise in areas of high academic potential; and (5) sharing financial costs for high-risk R&D projects, which are difficult to administer by the firm alone.

On the other hand, the academic researchers had also gained considerable benefits from the CRD program, enhancing their innovative capabilities mainly through producing and publishing reputable research. The following objectives were often stated by university researchers as the key benefits from partnership with industry: (1) conducting research on areas related to industry, which generates new research outcomes publishable in peer reviewed journals; (2) exploring new research areas that were not addressed originally by the CRD project but that, nonetheless, have a promising impact on the industrial partner; and (3) increasing the focus on applied research that can create new partnerships with the same firm or with other firms.

Findings suggest that the practicing of various types of informal communication between universities and firms is the most common means of knowledge transfer in partnerships. If both partners are collaborating on exploratory research, the process can generate many possibilities that have to be addressed promptly in order to define what should be done in the next stage. At this point, informal interactions appear to be very effective for exchanging ideas between two parties and enabling them to reach a mutual agreement.

It is essential to conduct regular evaluations of government programs that support partnerships between industry and university so as to measure outcomes from different perspectives and gain a clear understanding of the actual impacts of such programs (Landry et al., 2007, Al-Kwifī, 2012). The study presented here contrasts with previous studies on university-firm collaboration, which focused mainly on exploring the impact on industrial firms, with little understanding of the consequences for the participating university. This study aims to fill up this gap in knowledge and provide evidence that the impact is significant on academic researchers.
Most project collaborations among firms last for only as long as both partners are deriving advantages (Jones and Macpherson, 2006; Inkpen and Crossan, 1995); very few of them last for extended periods, given that the competitive intent and the race to capture high returns is a part of each firm’s business strategy. This study shows that the collaboration between university and firm can create a long-term sustainable relationship, because there is no competitive intent and each partner’s objectives complement the other’s, leading to an enhancement of innovative capabilities for both partners.

This research considers different categories of industrial firms – manufacturing, processing, high technology, food and biotechnology. This diversity broadens the applicability of research findings across other industries, with emphasis on the role of government-funded programs to support industrial innovation.

References


Female Entrepreneurs in Kingdom of Saudi Arabia: Motivations and Challenges

ABSTRACT

The Saudi Arabian government has realized the need to prioritize entrepreneurship as a vehicle to achieve economic growth and development. Despite all efforts by the government, however, it is evident that females in Saudi Arabia are still facing significant challenges that prevent them from participating in the economic development of their nation. This paper reviews the literature to identify the factors that motivate female entrepreneurs to start a business, and the challenges that confront them in that endeavor. As a consequence of evaluating various obstacles to entrepreneurial success, a set of recommendations are provided to improve the conditions that support female entrepreneurship in Saudi Arabia. Findings from this research will be used as a key informational resource for policy makers to help them draft strategies to meet the challenges facing female entrepreneurs in KSA, in order to encourage women to explore their business potential.

Key words: Female Entrepreneurs, startup business, Kingdom of Saudi Arabia, Middle-east, entrepreneurial success, discrimination.

INTRODUCTION

As societies in the Middle East confront the process of democratic change, no issue offers a more formidable challenge than that of the unequal status of women. The unequal status of women in many countries in the Middle East is a major component that prevents women from becoming successful entrepreneurs compared with women in the West. Nazir and Tomppert (2005) note that systematic discrimination has become entrenched and inherent in law, criminal justice, economy, health care and education across the Middle East, keeping women oppressed and limited in what they do. In the West, most women compete on an equal footing with men. They enjoy this equality because laws have been enshrined in the legal codes of most nations in North America and Europe that guarantee the rights of women.

In the West, most women compete on an equal footing with men. Equality has been achieved because laws are enshrined in the legal codes of most nations in North America and Europe that guarantee the rights of women. It must be pointed out; however, that women were also oppressed in the West until the process of emancipation was initiated in the early 21st Century (Stevenson, 2010). Since the formation of the United Nations in 1945, the world order has also sought to initiate changes that guarantee equality in gender matters. However, the movement is moving at a gradual pace worldwide rather than in a revolutionary manner.

Although communities across the Middle East maintain a strict patriarchal status, globalization is forcing people around the world to make changes and harness equality and similar patterns in all aspects of life (Moghadam 2007). This liberal thinking means that
women should be afforded equal rights when starting their own business. In the Kingdom of Saudi Arabia (KSA), King Abdullah has acknowledged that the Kingdom’s approach to the issue of women’s right needs to change since the world around them is becoming more liberal (Ramady 2010). Recently, the KSA government started a significant reform to appoint females to top positions, providing the blueprint for further emancipation of women.

However, if meaningful changes are to occur, women in the Middle East need to be financially emancipated (Keddie 2007). This advancement will require governments to guarantee the right of women to work to earn a living, and become entrepreneurs. Promoting female entrepreneurship is, therefore, an important way that the KSA can enable women to catch up with their male counterparts and, through emancipation, enjoy equality with men.

Businesses owned by women are generally small (Bruni et al., 2008). In other words, the businesses that women establish and run are less capitalized and have a lower turnover than those operated by men. Bruni et al., (2008) explain that this trend is due to the fact that women usually do not consider entrepreneurship a practical career option. Accordingly, they desist from pursuing aggressive expansion and growth that would guarantee an increase in the size of their business. Richardson et al. (2004) also note that women are usually the sole owners of their businesses, the reason being that many of them want a degree of independence that might not be possible in other forms of business structure.

Most of the existing research focuses on recognizing the challenges female entrepreneurs in the KSA face after they start their own business, but no research has explored the challenges women face before they start a business. It is important that policy makers acknowledge this fact and identify the barriers women in the KSA encounter at the early stages of launching a business. A research study was conducted by (Ahmed 2011a) on a group of women who were successful, but a large segment of women were excluded from the study and the challenges these women had to overcome were not properly recognized. My research aims to fill this gap in knowledge by determining the key challenges to success that prevent female university students from setting up a new business in the KSA. The study will start by reviewing the status quo of female entrepreneurship in the Middle East and identify the critical issues that have led to identified challenges. A survey will be created and administrated to different university students across KSA. The research will also propose practical solutions to reduce the negative impact of any issues raised in the study.

**LITERATURE REVIEW**

Female entrepreneurship has gained popularity in the world over the past four decades (Simpson 2011), with a growing trend for women to start up and run their own business. In addition, the promotion of feminist studies in academia and other methods of empowering women have led to a desire to learn more about businesses that are owned and run by women (Simpson 2011). There are many reasons for prompting women to become entrepreneurs and enter the business world. DeTienne and Chandler (2007) point out that female entrepreneurship revolves around four main matters: opportunity recognition, networking, financing, and performance; these are the four main foundations upon which women can build and control their own business.

Kedar (2009) states that the major factors drawing women into entrepreneurship worldwide including in the Middle East can be categorized into push and pull factors. The push factors include those issues that encourage a woman to start her own business, while the pull factors
are those positive aspects associated with owning one’s personal business. The main push factors include the drive for personal independence and the need to raise enough money to support one’s family. The pull factors on the other hand refer to the forces in the environment that encourage a person to start a business. Typically, a woman would have the resources, support, or talents that pull her toward setting up a given type of business. These factors empower a woman and motivate her to form the business and see it through.

Sadi and Al-Ghazali (2010) examined a new dimension in the motivation of female entrepreneurs in KSA. They compared the way men view the motivation of female entrepreneurs with the way women themselves view it. They discovered that most women found certain attributes to be more important motivators than men did. The women said that female entrepreneurship is growing because women are seeking to work independently, improve their social status, and pursue profit. Men on the other hand said women are becoming entrepreneurs because they have limited job offers and because they want to have more personal control over their lives and freedom in their activities. The study showed that women find female entrepreneurship to be steeped in the quest for financial independence and social status. Men, however, see female entrepreneurship as a necessity for unemployed women; they see in women a desire for the freedom they are denied in most Middle Eastern communities.

Ahmed (2011a) studied important features and patterns in the lives of female business owners in Saudi Arabia with the aim to provide a general view of female entrepreneurs there. In face-to-face studies to collect information on business conditions, Ahmed interviewed 314 business women in four cities in Saudi Arabia. It was found that female entrepreneurs operate mostly in fields that offer limited opportunity and are typical of the female gender in the region – including education of children, beauty services, and child-related services. It was discovered that most of the successful women in the KSA were married, with adult youths between ages 25 and 44. The lack of young women is a concern – the successful women are often older simply because they are not required to take care of children.

Interestingly, Ahmed (2011a) found that the Saudi female entrepreneurs are well educated and very confident, showing that they have the important skills and competency needed to succeed in business. He found that most of the women were sole proprietors rather than co-owners. Ahmed made some startling findings in the area of employment: First, most female entrepreneurs in Saudi Arabia employ only a small number of people, an average of 6 to 19, and second, most of these employees are female non-Saudi workers. Third, any men who are employed are part-time workers in very specialized roles. Fourth, female entrepreneurs in Saudi Arabia operate in only one city, and appear to be excluded from employment elsewhere. Finally, very few of the women participate in international trade, so they are unable to do business internationally.

In a follow-up study, Ahmed (2011b) identified gender bias and poor access to markets for female entrepreneurs. Another major hurdle to women’s success is bureaucracy within government institutions: Most government institutions have put in place rigid and stringent requirements that most female entrepreneurs cannot meet. Additionally, bankers are reluctant to help female entrepreneurs because most of them seek small loans with very short repayment times. In addition, tertiary educated women are restricted because the leading entrepreneurial ventures are usually reserved for men. Moreover, Ahmed found that blending childcare and business posed a great challenge for women, given local cultural issues and restrictions.
Javadian and Singh (2012) identified challenges women entrepreneurs face in Iran and classified those challenges under four dimensions. First, there is a general lack of self-confidence among women entrepreneurs because women are raised to suppress self-belief. Second, the system requires female entrepreneurs to take more risks than their male counterparts. Third, pervasive gender stereotyping makes it difficult for women to succeed in business. Finally, some traditional issues remain steeped in cultural thought that requires women to play a subservient role to men in society.

Hossain et al. (2009) confirm the social problems women face. In Bangladesh, for example, relatives and friends advise against women starting a business, while culture is also biased against women running a business. Most women who start a business do so to work and survive rather than to improve the state of the economy; the jobs they perform are focused on survival rather than on expansion and growth. Women also face severe discrimination in marketing because they have a limited networking system. Advocacy activities are also limited for women, and they are often left on their own with limited collective voices to further their needs in the wider community.

This literature review makes it clear that the challenges female entrepreneurs encounter across the Middle East, and in the KSA in particular, differ from those that women in the West confront. In the KSA, social discrimination in the form of gender stereotyping makes it difficult for women to succeed in creating a new business. In addition, there are traditional issues steeped in cultural thought that restrict women – for example, interaction between the genders in public places is strictly regulated, fostering different levels of complexity that prevent women from creating an appropriate networking system. Advocacy activities are also limited, and women are often left on their own with limited collective voices to further their needs in the wider community. Collectively, this restrictive environment produces a general lack of self-confidence among women entrepreneurs because they have been conditioned since youth to abandon belief in their own ability.

**MOTIVATIONS FOR FEMALE ENTREPRENEURSHIP**

Gallant et al. (2010) interviewed female university students ages 18 and 21 in the United Arab Emirates. They found that the main motivations for female entrepreneurship are: (1) Female entrepreneurship contributes to job creation. A woman might therefore want to start a business to help create jobs. (2) Women enter businesses because in that way, they can provide solutions to social problems. (3) Women become entrepreneurs because it allows them to bring competition into the economy. (4) Women form businesses because doing so enables them to unravel their personal potentials. And (5) entrepreneurship allows women the opportunity to become wealthy.

DeTienne and Chandler (2007) identify the reasons why women become entrepreneurs and start a business. They highlight four main variables: (1) Opportunity recognition, (2) Network, (3) Financing, and (4) Performance. The following sections detail these variables. Usually, women identify an ideal opportunity and formulate a strategy and organization to exploit that opportunity. For example, a woman finds there is the market for a given product or service. She then discovers that she herself has the background and ability to form a sustainable entity to exploit the opportunity, so she starts a business.
Some women can form a business based solely on networking opportunities coming from referrals and suggestions of friends. In fact, networking is one of the tools through which most female-run businesses thrive, grow and expand. Suitable financing is needed to keep a business going, so the entrepreneur may need to access capital. Accessing financial support can be a major variable in female entrepreneurship because it is open to manipulation in places where discrimination against women is rife. The final variable of importance is performance. If a woman enters a business venture that is friendly to females and not highly competitive, her performance is likely to lead to success of the business, and its future expansion. This implies, therefore, that performance and the need to work hard are required for the owner to remain successful in the industry or market. Performance is therefore a main motivator in an entrepreneurial business.

A study by Itani et al. (2009), who interviewed 19 female entrepreneurs in the United Arab Emirates, found that most female entrepreneurs in the Middle East are first-time business owners who control mainly start-ups. More than 60% of the respondents started their businesses between 2000 and 2004 when the Emiratization of the country began, a process that sought to improve Emirati business control and encourage women to participate in economic activities. Itani et al. found that certain factors initiated by the government are important for motivating female entrepreneurs. The factors include time management training, outsourcing, and child-care arrangements.

CHALLENGES FOR FEMALE ENTREPRENEURSHIP

Arab women entrepreneurs continue to face external barriers such as exclusion from formal networks, lack of financing, and social attitudes that suggest only men should own a businesses. Even though there are a few women who can meet the challenge of entering the business world, there is a significant difference between the businesses owned by women and those owned by men in matters of financial success, business size, and turnover. This discrepancy stems from the socio-cultural pressures exerted on women entrepreneurs across Arab countries (Mohsen, 2007).

There are already more than 12,000 businesswomen in the UAE, and they all face similar challenges. Some of the challenges, however, are being tackled by the Dubai Businesswomen Council, which is seeking to develop strategies to help women expand their businesses. Most women-owned businesses in this region are small, and this is the reason the Council wants to promote expansion (Grey, 2010).

Inadequate Training / Education

Women are generally known to work hard and with determination and to perform their tasks well, but they lack the commercial skills needed by entrepreneurs. The confidence level of women, however, is often lower than that of men, a fact that encourages discrimination (El Mahdi, 2006). For women to be as successful as men in entrepreneurship, they need exposure to the business environment as well as support by their government (Allen & Truman, 1993). Training on managerial styles suitable for women is also needed. Women tend to use a collaborative style of leadership while men use a directive style that is believed to contribute to their success in business (CIBS Small Business, 2004).

According to Grey (2010), education of women across the Middle East is not a government priority, and therefore, few women have the skills needed to help them start and run a business. Lack of education also hinders them from accessing capital since they are not
trained on how to understand the financial sectors, how to exploit their own potential, and ultimately how to start a business.

**Inadequate Initiatives From The Government**

Although women entrepreneurs are helping countries reduce the unemployment rate by creating more job opportunities for themselves and others (Webb, 2003), this success has not been achieved without having to overcome great challenges. The challenges women face include deficiencies in education, social acceptance, training, and workplace experience. Governments in many countries have been reluctant to initiate development programs for women, thereby curtailing the empowerment of women and leaving them to fend for themselves in business (Dechant & Al Lamky, 2005).

**Inadequate Financial Support**

Welter and Kolb (2006) suggested that if women were given the support they require in entrepreneurship, they would use their innovative abilities to bring change to the whole economy. In practice, however, there is no equality between men and women in entrepreneurship. Women entrepreneurs encounter discrimination in financing in their efforts to start small businesses (Leila, 1992). Some studies show that most women are unable to arrange financing at banks and other financial institutions, limiting their ability to become entrepreneurs. Representatives from the forum for women entrepreneurs have found that few women are familiar with the process of obtaining funding. They are discriminated against because they tend to concentrate more on their ideas and neglect the issue of revenues (Nelson, 1987). In addition, mechanisms used for credit scoring discriminate against women and make them unable to access funds for their businesses.

Many women entrepreneurs have to rely heavily on capital from their personal savings and some small loans from microfinance institutions with high interest rate. In KSA, there are also strict regulations in place that hinder them from acquiring formal capital from the government, and this is one problem that governments can easily resolve (Ahmed, 2011a). Discriminatory government policies demoralize women who have a passion to enter into the business world, because the only capital they can afford is insufficient for starting a business that is sustainable in the long term.

**Cultural Factors**

In KSA, a woman’s responsibility in society has traditionally been viewed as that of a wife and mother. She has been denied participation in other areas of development, and as a result, has been sidelined as a participant in economic growth. Culture and tradition in KSA dictates that women should not run a business, and those who try to do so face many challenges. KSA is a patriarchal society where women are treated subordinate to men: They are obliged to seek permission from a man in their family before undertaking any action outside the home. Women are not allowed to interact with men who are not their relatives, but of course it is not possible to do business without interacting with various people. These factors have led female entrepreneurs in KSA to open their businesses in the name of a male in their family. They do so to avoid their businesses being discriminated against, as well as to avoid open violation of society’s rules and regulations (Minkus-McKenna, 2009). This restriction deprives them of the ability to run their businesses at the forefront and of the opportunity to address properly any issues that arise in running their businesses.

Cultural beliefs in KSA have contributed to the perception that women should not be empowered, a perception advanced by the lack of social networks and motivation (Birley,
Women in KSA face more obstacles that their counterparts in other countries; in fact, the only country where women are not permitted to drive an automobile is KSA (Charmes, 2003). Women were not permitted to start businesses unless accompanied by a male representative, who would be the person dealing with legal matters.

**Inadequate Support From Each Other**

Saudi Arabian women who want to start a business are not supported willingly by other women or even by their male counterparts. The lack of support creeps in as a result of a culture of privacy that discourages the sharing of personal problems. The government has minimal programs in place for workplace development of women, thereby denying them a chance to build those economic and technological skills needed in business. Most women in Saudi Arabia and in other Islamic countries are not allowed to interact with or talk to men other than a relative in public. This lack of exposure deprives women of business knowledge and analytical skills needed for the success of their businesses (Baughn, Chua & Neupert, 2006).

**IMPORTANCE OF ENTREPRENEURSHIP FOR KSA ECONOMY**

Saudi Arabia is among the nations that realize the need to prioritize entrepreneurship as a vehicle to achieve economic growth and diversification. KSA regulators realize that encouraging entrepreneurship is one way of achieving the status of a developed nation internationally (Razan, 2007). The World Bank ranked Saudi Arabia in position 13 out of 177 nations that provided an easy ground for doing business. In 2010, Saudi Arabia was ranked among the top-ten most aggressive nations in the world in opening new businesses. This business-friendly environment has resulted in the tremendous economic growth and development we see in Saudi Arabia today (Sadi & Al-Ghazali, 2010).

Despite these efforts by the KSA government, women entrepreneurs there face clear discrimination in their efforts to participate in the economic development of their own nation. This discrimination results from the many challenges women entrepreneurs face, most of the challenges being founded upon gender. Among the challenges women face are limited access to formal start-up capital, poor support from society, and domination of the business sector by men who often oppose the success of women. Although these challenges are similar across most of the world, discrimination among women entrepreneurs in KSA is especially pronounced.

**RECOMMENDATIONS ON HOW TO REDUCE CHALLENGES**

Despite the many challenges, there is evidence of a continued increase in the number of women in the entrepreneur sector in KSA. This increase is attributed to such factors as women realizing their role as participants in their country’s economy, and education access that has informed them of their rights as equal participants in economic development. According to KSA chamber of commerce, only 4% of businesses in the nation are registered under women, the remaining 96% being owned by men.

It will remain impossible for women in KSA to succeed in business unless the government takes up the task of ending the gender-based stereotyping founded on misguided policies (Dechant & Al Lamky, 2005). The federal government of Saudi Arabia needs to accord women the full right to embrace opportunities that will contribute to economic growth and foster development of the nation.
In recent decades women in KSA have earned many rights; for example, they have the right to access education, and an increasing number of them graduate from universities every year. This advancement in education has not, however, translated into increased entrepreneurship: Women are held back by stringent traditions and outdated cultural practices that do not favor them as entrepreneurs. Many women fear entering the entrepreneurship sector because of the gender discrimination they might face (Smith-Hunter, 2006).

Most of the studies identified cogent solutions to the numerous challenges faced by female entrepreneurs in their bid to find suitable positions in the business world. These solutions are related mainly to the wider society and individual female entrepreneurs. Ahmed (2011a) states that the solution to the problem can be found in women's organizations and financial institutions. He suggested that women's organizations adopt programs to improve the perception of women entrepreneurs as role models for up-and-coming young women in high schools and universities, thereby inspiring them and encouraging them to break the cycle of male domination.

Ahmed (2011a) recommends that women's organizations run courses that encourage women to become more knowledgeable and efficient in their operations in the market. This means women should be taught how to market and promote their products effectively in the wider society. Women's groups need also to educate women on how to navigate the regulatory framework; how to register their businesses and bypass the various bureaucratic barriers; and how to build strong networks that can enable them to succeed in business.

On the other hand, financial institutions need to be encouraged to view female entrepreneurship in a positive light. They need to understand that female entrepreneurship does not cause harm to society as a whole; rather it strengthens and enriches society. These institutions need to learn that female entrepreneurship would help them thrive. They should be encouraged to conduct regular research about female entrepreneurs, change their financing policies toward females, and ensure there are incentives in place to attract female entrepreneurs.

Gallant et al., (2010) state that at that personal level, it is important for each female entrepreneur to develop competencies to succeed in the market. A female entrepreneur needs to attend to the following requirements: (1) Create a business plan and business concept; (2) understand the business environment; (3) get a good knowledge of marketing; and (4) get a good knowledge of the legal and financial framework. A female entrepreneur in the Middle East may also need to make arrangements in the following important areas: proper time management, appropriate outsourcing, and child care arrangements.

**ROLE OF GOVERNMENTS**

Although the recommendations at the institutional and individual levels are valid, some issues cannot be changed without the commitment of government. Since the government of KSA has shown a firm commitment to changing the present business climate, it is apparent there will be greater opportunity for women entrepreneurs in the future. For example, Ahmed (2011b) recommends that nations like Saudi Arabia set up a Ministry of Women's Affairs to implement decrees meant to eliminate the discrimination female entrepreneurs now face, such move would help women in KSA significantly to overcome most of the challenges presented in this study.
In addition, a government strategy to appoint females to top positions would provide the blueprints for further emancipation of women and encourage those women with business ideas to implement them. Laws that require women entrepreneurs to appoint male managers should be repealed and a public campaign to promote women's economic welfare should be established. It is also important that government authorities review and update credit conditions and restrictions imposed by banks, and enact laws to ensure banks and financial institutions reduce discrimination against women.

Governments can also take steps to limit bureaucratic processes and requirements that make it difficult for female entrepreneurs to register businesses. The government should intervene to help and encourage female entrepreneurs to register, and allow them to conduct their businesses in a much more flexible manner than at present.

References


The Impact of Performance Appraisal on Employee Job Satisfaction and Employee Productivity in Kingdom of Saudi Arabia

ABSTRACT

Considering the role of satisfied and productive employees in achieving organizational success, it is critical to concert effort to nurture and encourage employee job satisfaction and employee productivity in organizations. To address this issue, previous studies have examined the possible factors that facilitate employee job satisfaction and employee productivity. In this study, we empirically examine the influence of performance appraisal on employee job satisfaction and employee productivity in the Kingdom of Saudi Arabia. A survey was collected from 101 employees occupying different positions in their respective organizations. The organizations surveyed are of different sizes, activities, ownership and from different regions of the Kingdom. Results show that performance appraisal is not a significant predictor of employee productivity, whereas performance appraisal is a significant predictor of employee job satisfaction. Also, an effective performance appraisal is a significant predictor of employee job satisfaction. Practical managerial implications are discussed.

Key words: Performance Appraisal, Employee Job Satisfaction, employee productivity, effective performance appraisal, Kingdom of Saudi Arabia.

INTRODUCTION

Business environment is changing dramatically and the competitive pressure faced by firms has increasingly intensified in recent years, causing many firms to operate in hypercompetitive environment (D'Avenire, 1994). In an effort to thrive in this competitive environment, leading organizations are characterized with effort to continually enhance their effectiveness and productivity. Owing to the fact that it is through human effort that work is accomplished (Pulakos, 2009), employees are among the critical aspects of which organizations can leverage to improve their effectiveness. Thus, the need to attract and retain employees by keeping them satisfied and to get the best out of them by making them productive is imperative for organizational success (Sexton et al., 2005). In this regard, successful firms are regarded as those that among other things invest resources into programs in a bid to increase their employees’ job satisfaction and productivity (Brown & Peterson, 1993).

As has been argued by practitioners and scholars alike that properly conducted performance appraisals can provide numerous positive organizational results (Pettijohn et al., 2001), performance appraisal could be linked to both employee job satisfaction and employee
productivity (Anderson, 1993; Aguinis, 2009). This is because performance appraisal enhances employees’ feelings of self-worth, achievement, attitudes about their job and their feelings of a positive standing in the organization, thus performance appraisal experiences are likely to generate higher levels of job satisfaction (Fletcher & Williams, 1996). Similarly, since performance appraisal process is designed to stimulate employee performance (Aguinis, 2009), body of researches have suggested that performance appraisals do result in increased employee productivity (Rodgers & Hunter, 1991).

On the contrast, performance appraisal process is often viewed as a threat and for some employees it is a time of great anxiety and uncertainty (Jackman & Strober, 2003). For these reasons, Ludeman (1995) suggested that performance appraisal may breed mediocre performers. These negative emotions of performance appraisal may also adversely affect job satisfaction (Jackman and Strober, 2003). Owing such negative perception of performance evaluation, managers see performance appraisal as a necessary evil in corporate life Wanguri (1995). It is the most disliked tasks which comes after firing employees (Heathfield, 2007).

As a part of human resources functions, performance appraisal continued an important topic of investigation among researchers (Dulebohn & Ferris, 1999). Though a number of previous researches have attempted to examine the relationship of performance appraisal with employee job satisfaction and employee productivity, but owing to the mixed effects of performance appraisal on employee job satisfaction and employee productivity and the fact that these relationships are mostly assumed rather than tested (Levy & Williams, 2004), there is hence a need for an empirical evidence of such relationship.

Moreover, among the few empirical studies on the relationship, literature search indicates none was undertaken in Kingdom of Saudi Arabia (KSA) work environment. Therefore, the motivation of this study is to fill the existing literature gap by empirically examining the impact which performance appraisal could have on employee job satisfaction and employee productivity in KSA.

**LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK**

*Performance Appraisal*

Every aspect of an organization requires evaluation for it to remain competitive. No better aspect of an organization needs such evaluation than the most valuable asset of the organization: its employees. As such, employee performance appraisal is a common practice in most organizations. It is worth noting that over 90 percent of large organizations employ some kind of performance appraisal system and over 75 percent of US employment systems require annual performance appraisal (Murphy & Cleveland, 1991; Seldon, Ingraham and Jacobson, 2001).

Traditionally, performance appraisal is considered as a formal annual interview that generates social interactions between managers and employees to formulate action plans through a discussion of the individual’s previous job performance and future developmental needs (Murphy & Cleveland, 1995). More recently however, instead of only being a simple tool of recording and documenting employee’s performance, performance appraisal is now considered as a more strategic and holistic approach to link a corporate strategic plan with the department/division and individual performances (Fletcher, 2004).
As widely as the performance appraisal being used, so it is defined. Performance appraisal could be defined as a process by which a superior evaluates and judges the work performance of a subordinate (Walsh, 2003). In many cases, it is a formal process and part of the personnel management policy (Walsh, 2003). Some also view performance appraisal as a mandated process in which, for a specified period of time, all or a group of an employee's work behaviors or traits are rated or judged by a rater (Coens & Jenkins, 2002). According to Smither (1998), performance appraisal is an evaluative process involving the assessment of employee performance based on predetermined standards. To Grote (2002), performance appraisal is a formal management system used to evaluate the quality of an individual’s performance.

In the 1990s, appraisal systems such as 360-degree feedback, peer-to-peer, and supervisor subordinate systems were developed (Coens & Jenkins, 2002; Grote, 2002; Neal, 2001). All of these systems involve maturation from evaluating employees by their supervisors alone to evaluating the performance of the employees based on the perceptions of their colleagues (Redman & Snape, 1992). The 360-degree feedback is normally secured through an anonymous process. Individuals with a work-based relationship with other individual being evaluated can rate him in several aspects and across multiple focus areas (Peiperl, 1999). The persons being rated are not aware of who in their sphere of influence provided the assessment.

**Effectiveness of Performance Appraisal**

There has been an argument that traditional appraisal systems could limit an organization’s ability to remain competitive (Coens & Jenkins, 2002; Neal, 2001). This is for the fact that at times the evaluation exercise is performed at the last minute which also makes it unfair and ambiguous (Cederblom & Pemerl, 2002; Fodchuk, 2002).

Rue and Byars (2001) stated that there are some fallacies that might distort the effectiveness performance appraisals. These include leniency, which means grouping of ratings at the positive end of the performance scale; central tendency, this occurs when the appraisal statistics indicated that most employees were elevated (rated) average or above average; and recency, that is basing performance evaluations upon work performed most recently right before appraisal is due.

As the significance of performance appraisal is undoubted, practitioners and scholars alike are interested in good practices that make performance appraisal system effective (Lindholm, 1999). According to Lindholm (1999); employee perception of the effectiveness of an appraisal system could be determined by three factors. These include the degree to which employees have the opportunity to participate in the objective setting process, the discussion of employee training and career development and the degree to which employees receive feedback on job performance. Constructively, performance appraisal systems should aimed at capturing past performance, providing reflection points, and providing developmental feedback for employee improvement on a personal and professional level (Coens & Jenkins 2002, Neal, 2001).

Also considering the fact that an appraisal system is not an isolated activity that is unrelated to other activities within organization, the effectiveness of the appraisal process depends not only on the technical attributes of the appraisals but also on the broader organizational and managerial context. Some of the organizational and managerial context includes top
management support, organizational policy concerning the use of appraisal information, job characteristics, and supervisory behavior, among others.

H1. Effective performance appraisal is positively associated with Job Satisfaction in KSA.

**Employee Job Satisfaction**

Job satisfaction which is regarded as the degree of pleasure a worker derives from his/her job has been one of the most widely studied constructs in the work and organizational literature (Spector, 1997). It has been considered in a variety of ways, and is defined divergently in various studies. Job satisfaction can be defined as the pleasant emotional state that is resulting from appraisal of a person’s job (Locke, 1976).

According to Robbins and Coulter (1996), job satisfaction is an employee's general attitude towards his job and Spector (1997) defined job satisfaction as how people feel about their job. Job satisfaction is considered as a measure of employee wellbeing (Green, 2004). From economic perspective, job satisfaction can be explained in monetary terms. Since people are assumed to like rewards but dislike effort, a better salary for an identical level of effort will determine a higher level of satisfaction. From psychological perspective, job satisfaction is often referred to include task environment, compensation, communication, and social relations at the work place (Spector, 1997).

A high quality performance appraisal likely enhances employee feelings of self-worth, achievement, attitudes and positive standing in his organization, Lind and Tyler (1988). Fried and Ferris (1987) also affirmed that quality performance appraisal experiences are likely to generate higher levels of job satisfaction and inversely a low quality performance appraisal experience may result in a lower level of job satisfaction. It is suggested that low quality Performance Appraisal may lead to lower levels of job satisfaction (Campbell et al., 1998), the following statement can be concluded:

H2. Performance appraisal is positively associated with Job Satisfaction in KSA.

**Employee productivity**

A level of productivity of an individual employee can be related to his or her peers on several job-related behaviors and outcomes. It encompasses both efficiency and effectiveness, where high productive employees will increase an organization’s efficiency and productivity. Some of the measures for employee productivity include among others: goal attainment for unit and for the organization, labor costs, service, professional growth, meeting productivity goals, meeting deadlines, being well organized, accomplishing a large amount of work, accuracy, prevention of turnover, and departmental problem solving. Enhancing employee productivity does not occur in a vacuum. It is a result of actions, programs and behaviors of different stakeholders that include managers/supervisors and employees themselves. Both management and employees play key role improving employee productivity.

Some empirical researches suggest that performance appraisals help in increased employee productivity (Rodgers & Hunter, 1991). Hence, poor performing employees are identified and given feedback in order to improve their performance. They might be developed through training or special assignments in order to rectify their poor performance. Since according to Aguinis (2009) the primary aim of performance appraisal is to stimulate employee performance and productivity, it can thus be hypothesized that:
**H3.** Performance appraisal is positively associated with employee productivity in KSA.

Figure 1 shows the theoretical framework depicting the hypothesized relationships.

**Figure 1.** Theoretical Framework

![Theoretical Framework Diagram](image)

### METHODOLOGY

This study adopts a quantitative research method, which is regarded as a formal, objective, systematic process used to quantify numerical data, to obtain information between two or more variables, and address specific questions about a limited topic within a domain. The study also adopts surveys method as the way of obtaining data. In this quantitative study, the independent variable which is performance appraisal is the presumed cause, and the dependent variables which are employee job satisfaction and employee productivity in the study are the presumed effects.

The study employed a field survey and questionnaires were directed at employees occupying different positions in their respective organizations. The organizations surveyed are of different sizes, activities, ownership and from different regions of KSA. A sample of 150 employees was drawn to whom surveys were administered and out of such questionnaires delivered, 101 were returned, representing 67.33% usable response rate.

A single item was used to measure performance appraisal. The item was adapted with modification from Timperley (1998). The scale used in measuring the effectiveness of performance appraisal consists of nine items, which were adapted from Timperley (1998). With respect to the employee productivity construct, a single item was used, which was adopted from Kemerling (2002). Job satisfaction was adapted from a scale developed and validated by Al-Dmour and Awamleh (2002). The measure has six items. Finally, the demographic profile part of the questionnaire included questions relating to both the characteristics of the respondents as well as their organizations. The data is analyzed using SPSS.
RESULTS

The demographic profile of the respondents is presented in Table 1. It can be seen from the table that about a quarter of the respondents are each middle managers (22%) and supervisors (20%). This insignificant proposition of the top managers (6.1%) is practical. The remaining half of the respondents (51%) occupies other occupational levels in their respective organizations.

Table 1. Respondent’s Profile

<table>
<thead>
<tr>
<th>Occupational Level</th>
<th>Valid responses</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Manager</td>
<td>6</td>
<td>6.1</td>
<td>6.1</td>
</tr>
<tr>
<td>Middle manager</td>
<td>22</td>
<td>22.4</td>
<td>28.6</td>
</tr>
<tr>
<td>Supervisor</td>
<td>20</td>
<td>20.4</td>
<td>49.0</td>
</tr>
<tr>
<td>Other</td>
<td>50</td>
<td>51.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25 years or less</td>
<td>16</td>
<td>15.8</td>
<td>15.8</td>
</tr>
<tr>
<td>26-35 years</td>
<td>44</td>
<td>43.6</td>
<td>59.4</td>
</tr>
<tr>
<td>36-45 years</td>
<td>30</td>
<td>29.7</td>
<td>89.1</td>
</tr>
<tr>
<td>45 years or over</td>
<td>11</td>
<td>10.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Nationality</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saudi</td>
<td>80</td>
<td>79.2</td>
<td>79.2</td>
</tr>
<tr>
<td>Non- Saudi</td>
<td>21</td>
<td>20.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Educational Qualification</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than University</td>
<td>35</td>
<td>34.7</td>
<td>34.7</td>
</tr>
<tr>
<td>College Graduate</td>
<td>19</td>
<td>18.8</td>
<td>53.5</td>
</tr>
<tr>
<td>University degree</td>
<td>40</td>
<td>39.6</td>
<td>93.1</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>7</td>
<td>6.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Organizational experience</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Years or less</td>
<td>72</td>
<td>71.3</td>
<td>71.3</td>
</tr>
<tr>
<td>6-10 Years</td>
<td>11</td>
<td>10.9</td>
<td>82.2</td>
</tr>
<tr>
<td>Over 10 years</td>
<td>18</td>
<td>17.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Respondents’ Perception of their Average Score (Grade letter C)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feel very bad</td>
<td>66</td>
<td>65.3</td>
<td>65.3</td>
</tr>
<tr>
<td>Normal</td>
<td>21</td>
<td>20.8</td>
<td>86.1</td>
</tr>
<tr>
<td>Feel good and give me incentive to Improve further</td>
<td>14</td>
<td>13.9</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Respondents parents’ Perception of their Average Score (Grade letter C)

| Feel very bad              | 47              | 47.0    | 47.0               |
| Normal                     | 32              | 32.0    | 79.0               |
Regression analysis indicates that performance appraisal is not significant predictor of employee productivity, whereas performance appraisal is a significant predictor of employee job satisfaction. And effective performance appraisal is a significant predictor of employee job satisfaction.

Analysis of variance (ANOVA) is used to examine whether performance appraisal, employee productivity and employee job satisfaction differ among demographics of the respondents and their organizations characterization. The results indicate that occupational level, nationality and organizational experience are all not significantly different with respect to performance appraisal, employee productivity and employee job satisfaction. With respect to the organizational ownership, the result shows that this demographic is not significant with respect to both performance appraisal and employee productivity. But, it is significant with regards to employee job satisfaction. While educational qualification is not significant with regards to employee productivity, it is however significant with respect to the performance appraisal and employee job satisfaction.

**DISCUSSION**

The findings demonstrate that hypothesis 1 and 2 are supported, but hypothesis 3 is not supported. This indicates that employees in KSA perceive that performance appraisal exercise is regularly conducted in their organizations. This might be connected with the size of the organizations as large firms are more likely to administer appraisal. A possible implication of this finding is that human resources functions are well managed in large organizations.
Similarly, the finding that employees are satisfied with their jobs, is reassuring one to the employees as well the management. The possible implication of this finding is that firms in KSA have conducive work atmosphere and effort should be made to at least maintain such working conditions. Thus, management might expect less dysfunctional behaviors such as employee turnover.

Results confirm the nine determinants of effective performance appraisal in KSA. The practical implication of this indicates that to achieve the intended result of performance appraisal, management should incorporate those nine features in their performance appraisal exercise. Thus, management should embrace a performance appraisal system that has these ingredients, identifies staff development needs; provides about employee performance; gives staff evaluative information on their own performance; identifies development goals; avoids threatening staff; enhances collegiality; determines staff promotion; identifies staff for competency proceedings and holds staff accountable.

Tests using correlation analysis indicate significant effect of performance appraisal on employee job satisfaction. This finding is in line with that of previous studies (Fletcher & Williams, 1996; Masterson et al., 2000). However, no significant relationship was found between performance appraisal and employee productivity. This result does not support the second hypothesis and it is at variance with some past studies (Rodgers & Hunter 1991). This variation might be owed to the peculiarity of the research environment which is different from that of related studies that were conducted in Western environment.

The finding that no significant difference exists between occupational level, nationality and organizational experience with respect to employee productivity and employee job satisfaction implies that the presence of satisfied and productive employees in Saudi firms is holistic irrespective of the nationality, work experience or occupational level of the employees.

Conversely, the finding that performance appraisal differs with respect to organizational ownership implies that the extent to which performance appraisal exercise is conducted is different between private and government-owned enterprises in KSA. This could be explained to the different rules and policies that differ among the two sectors. Most of the government employees are guaranteed permanent contract against those that work with private sector, where most of whom are non-Saudis that subjected to tenure renewal. It should also be realized that performance appraisal is one of the basis of renewing employees’ contracts. The finding that employee job satisfaction differs with educational qualification is self evident as educational achievement itself bring a feeling of self worth and contentment.

CONCLUSION

This study is novel, being one of its kind in KSA, though the findings and implications are not only restricted to the KSA environment. Thus, the originality of the study will fill some gap in the dearth literature and the practical implications deduced would aid organizational stakeholders in their effort to improve their performance appraisal systems and enhance the productivity and satisfaction of their employees.

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The Impact of Performance Appraisal on Employee Job Satisfaction and Employee Productivity in Kingdom of Saudi Arabia


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Corruption and the Multinational Corporation: Internal Vs. External Deterrents to Bribery in a Foreign Country

Abstract
This paper aims at determining the internal deterrents defined as the firms internal values and code of conduct and external deterrents defined as pressures from stakeholders on the MNC propensity to pay bribes in a foreign country. Data on more than 2000 MNCs operating in more than 60 countries will be obtained from the World Bank's Business Environment and Enterprise Performance Survey (BEEPS). A Multi-level model will be constructed and hierarchical linear modeling (HLM) will be used to determine the effect of country-level and firm-level deterrents on the MNC bribery activity.

This study advances the literature on corruption in several directions. First, it studies the phenomenon from supply side (i.e. the bribe-payer). Second, it uses the MNC as the unit of analysis rather than country or local firms. Finally, it goes beyond recent studies by simultaneously studying the external and internal deterrents effect on a firm's bribery activity.

Introduction
It can be observed that early research on corruption has avoided prescribing remedies for corruption. This can be attributed to the inability of reaching a universal definition for corruption, the secrecy associated with the phenomenon, and the difficulties involved in measuring corrupt activities. For example, management scholars mainly prescribe good governance, transparency, and internal codes of ethics as preventive actions against engagement in corruption (Doh et al., 2003; Kaufmann, 2005; Wu, 2005).

This project will focus on two types of deterrents; internal originating from within the organization and external deriving from governments and organizations that have a direct stake in the MNC.

Internal Deterrents
Researchers have found a major gap between the headquarters and subsidiaries when it comes to MNCs engagement in corruption (Kaufman, 2004). Even if the mother company has strict regulations and code of conduct against bribery and other forms of corruption, usually “transnational firms …operating in non-OECD countries, exhibit much lower (often illegal) corporate ethics standards” (ibid, 92). Thus, some scholars have opted to measure the impact of governance on corruption. Wu (2005) finds a significant negative impact of governance mechanisms on corruption on the country level. His findings suggest that increased accountability of the board to shareholders and higher financial disclosure standards deter firms from engagement in corruption. In similar manner, this project aims to determine the relationship between transparency in accounting procedures and control exerted by the mother company on financial statements preparation and disclosure.

External Deterrents
The study identifies two preliminary types of external deterrents: 1) Home country laws
against foreign corruption and 2) supranational initiatives. The effect of non-government organizations and civil society groups will also be analyzed to determine the impact on MNCs activities abroad.

1- Home countries laws

**Foreign Corrupt Practices Act (FCPA)** The United States was the first country to pass a Foreign Corruption Practices Act (FCPA) in 1977. This law penalizes MNCs originating from the states for engaging in any corrupt transactions abroad. Punishments include taxes, fines, or even jail time for the management of the MNC (Hines, 1995). Evidence in the literature is contradictory regarding the effectiveness of FCPA, ranging from studies that show not so ever effect of the law on engagement in corruption to studies that suggest minimal effect in curbing American MNCs from engagement in corruption globally to study claiming significant impact of the law in limiting corrupt behavior. (Henisz, 2000) did not find any effect of the law on the American investment levels in corrupt countries. Similarly, Wei (2000) and (Smarzynska & Wei, 2000) concluded that although American investors are averse to engagement in corrupt transaction, they are not necessarily more averse than other MNCs from OECD countries that do not have similar laws. On the other hand, Hines (2000) found evidence that after FCPA, FDI to corrupt countries from the US has decreased significantly; however, he could not solely contribute this decline to FCPA.

**OECD Convention on Combating Bribery** Organization for Economic Cooperation and Development (OECD’s) members signed a convention against bribery both locally and globally in 1997 and started its application in 1999 (Smarzynska et al., 2000).

As with FCPA, evidence of the effectiveness of OECD convention varies between those who suggest that the convention did not drastically affect corruption and others who concluded that the convention managed to limit corruption. (Kaufmann, 2004) notes that although corruption from between OECD countries has somewhat decreased as a result of the convention, the same pattern has not been noticed when it comes to MNCs operating in non-OECD countries. On the other hand, recent research by Cuervo-Cazurra (2006) deduced that MNCs from countries that signed the OECD convention have avoided investment in corrupt countries after the convention took effect.

2- Supranational organizations’ Initiatives

There have been other efforts by supranational organizations to combat global corruption with various degrees of success.

**The World bank** the world bank now refuses to provide financial aid to countries that do not take serious steps towards minimizing corruption and increasing efficiency such as "legal reform, tax reform, privatization..and governmental efforts to eliminate corruption" (Mikesell, 2000:409).

**The United Nations** In 2003 the United Nations Convention against Corruption (UNCAC) was put into effect aiming at combating corruption at from the public and private ends. The convention requires preventive measures against corruption, promoting code of ethics in the public sector, criminalization of bribery, etc. (UN Website). The convention has managed to attract 140 state parties but was only ratified by 117 (ibid). However, the convention's effect on corruption is yet to be recognized since it faces some major challenges including the absence of implementation enforcement and monitoring mechanisms (Heimann & Dell, 2008).
Methodology

Data Sources

The main data source is "Business Environment and Enterprise Performance Survey 2009" (BEEPS 2009). The BEEPS survey is conducted jointly by the World Bank and the European Bank for Reconstruction and Development. This survey which is carried out on yearly basis from 2002 is a continuation of the "World Business Environment Survey 2000" (WBES 2000) which was conducted in the late 1999 early 2000 on more than 10,000 firms in eighty countries. BEEPS is being handled by the Enterprise Analysis Unit of the World Bank which includes members of the team that previously handled WBES. Thus, they used the same methodology and questionnaire. BEEPS covers 67 countries (including Arab countries) with more than 10,000 firms.

BEEPS survey includes 74 questions with the purpose of understanding the various factors that constrain business development. These questions are distributed over ten sections aimed at evaluating the managers’ views on corruption, effectiveness of laws and regulations and government policies, the competence of the judiciary system and law enforcement, the quality of public services, and bureaucracy and red tape and their impact on the investment environment and their firms’ performance.

The main difference between BEEPS/WBES and other corruption surveys is that it measures corruption at the firm level (Martin et al., 2007). The validity and reliability of corruption measures in WBES has been tested extensively (Uhlenbruck et al., 2006). They found the correlation between WBES 1998 and 2000 to be “0.96 and 0.94” and they found the correlations between WBES and other highly-credible measures such as Transparency International's Corruption Perception Index (CPI) to be “0.80 and higher” (p.407-408).

Other databases will be used to collect additional data including Transparency International’s Corruption Perception Index (CPI 2009), and Bribery Payer Index (BPI 2009) in order to build country level measures of corruption. BPI in particular will be used to address the supply side of corruption, namely “business people who refrain from corrupt activities at home, but engage in them abroad" (Husted, 1999:347). Another advantage of the BPI is that it differentiate between three types of bribes: i) bribes to politicians; ii) bribes to low-level public officials to overcome bureaucracy; and iii) the use of social connections to secure government contracts (Riaño et al., 2008: 7).

Variables

Dependent Variable:

**MNC’s Propensity to pay Bribes** In order to operationalize the MNC’s engagement in corruption we follow the steps of Martin et al. (2007) in establishing a multiple-item measure out of the survey items that relate directly to the MNC’s act of paying bribes in general and to obtain access to government services. Paying bribes measure is addressed in the survey by a direct question about “how common it is for firms in your line of business to pay irregular „additional payments” to get things done?”. Other measures deal with transactions that require bribes such as “public services, licenses and permits, dealing with taxes, securing government contracts, dealing with customs, and dealing with courts”. Principal components analysis (PCA) was conducted in order to construct the measure by choosing the components with highest factor loading. PCA is one of the most effective methods in capturing the most of information from the data while reducing the dimensions at the same time (Lattin, Carroll, & Green, 2003). Moreover, principal components analysis "has the advantage of eliminating multicollinearity when using the results in an analysis of dependence" (ibid:84).
**Independent Variables**

**Headquarters control** this firm-level variable determines how much control HQ exerts over subsidiaries activities in foreign countries. It measures whether the subsidiary prepares its financial statements separately from the mother company.

**External Audit** this firm-level variable determines the degree of governance and transparency of financial statements and accounting practices. It measures whether the subsidiary hire an external independent auditor to check its financial statements.

**Home country Anti-corruption laws** this is a country-level dummy variable that indicates whether the home country of the MNC has laws punishing firms that engage in corrupt practices abroad. If the home country has a law then the variable takes the value “1” if not then it is “0”.

**Supranational anti-corruption initiatives** this is also a country level dummy variable that indicates whether the host country or home country has ratified an anti-corruption initiative by supranational organizations such as United Nations Convention against Corruption (UNCAC). If the MNC originates from a country that ratified an initiative the variable takes value “1” if not then “0”.

Additionally, other variables will be added after the preliminary data collection is conducted. These variables include; role of non-government organization (e.g. watchdog groups), existence and number of specialized board of directors’ committees, and existence and internalization of codes of conduct.

**Method of Analysis**

The proposed model is a cross-level model (Klein & Kozlowski, 2000; Rousseau, 1985) which means that "predictors on one level of analysis have an effect on a [...] lower level of analysis" (Klein et al., 2000:218). The model has two predictors on the country-level namely, home country laws and supranational initiatives, affecting the outcome at the MNC-level which includes the rest of the variables. Thus, in order to simultaneously estimate the deterring effects of country and MNC-levels on the MNC propensity to bribe, we must resort to methods other than standard linear regression procedures such as Ordinary Least Squares (OLS) (Hofmann, 1997).

HLM has the advantage of simultaneously analyzing the relationship between level-1 predictors (i.e. MNC) within level-2 units (i.e. country) and analyze the effect of level-2 variables on the lower level variables (Hoffman et al., 2000 in Klein et al., 2000). HLM also differs from OLS in two major regards; first, unlike OLS which treats predictors as fixed effects, HLM treats level-1 predictors as random effects that vary between groups. Second, HLM estimates the variance components (residuals) for each level separately while OLS treats the individual and group variance components as one (Hofmann & Gavin, 1998). Hence, Hierarchical Linear modeling (HLM) is the most appropriate procedure for this model.

**Significance of the Project**

*This project advances the literature on several ends. First, it helps increase our understanding of the corruption phenomenon from the supply side in contrast to the prevailing demand side. Corrupt behaviour by definition is an exchange transaction between two parties or more (Wertheim, 1964); and since the majority of the research focuses on the demand side (i.e. bribe taker) and prescribes remedies for bribery, it is*
Corruption and the Multinational Corporation:
Internal Vs. External Deterrents to Bribery in a Foreign Country

éminent that this project explores the supply side (i.e bribe payer) and what are the possible remedies/deterrents for such behaviour.

Second, this research uses the firm as the level of analysis in contrast to using the country as a level of analysis. Due to the lack of reliable firm-level data on corruption in the last century, researchers were limited to country level indices such as CPI and BPI. However, this study will employ recent firm-level surveys on corruption such as WBES2000 and BEEPS 2009 in order to advance our understanding of the phenomenon at a more meaningful level.

Finally, this is a leading study that analyzes external and internal deterrence simultaneously and seeks to determine their combined and mutual impact of the MNC propensity to pay bribes.

The findings will be valuable for all parties involved including the MNC, home countries’ governments, and supranational organizations. The MNC can utilize the findings of this study to determine which procedures are most efficient in minimizing engagement in corrupt behaviour. The home countries and supranational can use the findings of this research to measure the effectiveness of their anti-corruption laws and initiatives.

References
Abstract
This study examined the dimensionality and building process of brand experience in the context of brand website. Grounded in Mehrabian and Russell (1974)’s Stimulus (S) - Organism (O)-Response (R) framework aligned with Brakus et al. (2009)’s brand experience dimensions, this study identified sensory, affective, and behavioral dimensions of brand experience in a brand website across channels. The results indicated that the sensory experience of product presentation, interface design, and interactive shopping service attributes in the brand website positively led the affective experiential states of dominance and arousal, yielding behavioral brand loyalty which drive traffic to online and offline stores. Implications for building brand experience across channels are discussed.

INTRODUCTION
A brand’s website is becoming the most direct and interactive catalyst between brands and consumers, providing a venue for creating positive brand experience that drives traffic to online and offline stores. The quality of brand communication and depth of shopping information provided on brand websites are likely to develop consumer confidence, familiarity, and satisfaction with a brand (Park & Stoel, 2005). Indeed a brand’s website is not merely a point of purchase but an evocative touchpoint connecting consumers and brand, which is building consumer engagement with the brand.

Many fashion brands such as Anthropology and H&M have been described as uniquely experiential as many consumers coordinate all of their branding signals to express the experience as a whole (Kendall, 2009). These brands provide a visible cue that reflects consumers’ identity, lifestyle, and interests, reinforce symbolic and social values, and generate emotional and behavioral responses (Hamedie, 2011). Their creative websites also provide extensive brand experience through many interactive and communicative functions (e.g., ‘fashion blogs’ and ‘featured outfits of the day created by consumers’) in order to keep consumers on the website and engaged with the brand for longer periods of time. Since more versatile website attributes have evolved beyond the transactional point of purchase website, the dynamics of the building process in online brand experience can be crucial to optimize their brand website platforms to provide favorable brand experience that generates positive responses towards the brand (Ertell, 2010).
Positive behavioral relationships developed through brand related stimuli are identified as brand experience, which can lead consumers to make either planned or unplanned purchases (Beatty & Ferrell, 1998). Although extensive research supports the positive relationship between positive emotions and purchasing in both online and offline stores (Donovan, Rossiter, Marcoolyn, & Nesdale, 1994; Menon & Kahn, 2002; Wang, Minor, & Wei, 2011), there are growing needs for further study of how online brand experience affects consumer loyalty directly and indirectly through consumer-brand dynamics with its unique nature and dimensional structure (Brakus et al., 2009; Kim, 2012). However, scant research has been conducted on website attributes as it relates to online brand experience and how it develops the consumer experiential state that affects behavioral responses toward the brand. Thus, identifying the key website attributes that create a favorable online brand experience can help brands proactively position their online presences as a competitive advantage across channels.

In examining online brand experience in the brand website, this study approaches the building process of brand experiences drawn from the Stimulus (S) - Organism (O)-Response (R) framework (Mehrabian & Russell, 1974) aligning with the brand experience dimensions (Brakus et al., 2009). This study proposes brand website attributes as brand stimuli constructing sensory brand experience and generating affective and behavioral response toward the brand. Drawing upon this theoretical background, the purposes of this study are (1) to identify the dimensionality of online brand experience and (2) to examine the building process of sensory, affective, and behavioral brand experience by focusing on mediating effect of the affective experiential states on behavioral loyalty toward the brand across channels. Given the conjectural and practical significance of online brand experience, this study can provide implications for both academic researchers and industry practitioners when developing online brand experience that drive traffic to the brands’ websites and offline stores.

Theoretical Background

The Dimensionality of Online Brand Experience

Experience is derived from consumer interaction based on contact, knowledge, and observations (Brakus et al., 2009). Experiences occur when consumers search for products, when they shop for them and receive service, and when they consume them (Brakus et al., 2009). While product experiences occur when consumers interact with a product (Hoch, 2002), shopping and service experiences occur when a consumer interacts with a store’s atmospheric and personnel variables (Arnold, Reynolds, Ponder, & Lueg, 2005), thus, consumption experiences happen to multidimensional constitution (Holbrook & Hirschman, 1982). Recently, brand experience has received increasing attention in marketing practice research (Brakus et al., 2009) because brands are a complex symbol that embodies and represents the values underlying customers’ experiences with products or services (Fournier, 1998).

Upon considering the intricacy of brand experience, researchers (Brakus et al., 2009) conceptualize brand experience as subjective, internal consumer responses including the four dimensions of sensory, affective, intellectual, and behavioral responses evoked by brand-related stimuli. Grounded in Brakus et al. (2009)’s perspective, online brand experience can be generated when consumers are interacting with the brand offerings in the online environments. Sensory experience dimension is associated with information design and how the information is presented (e.g., content, navigation structure, and graphic style) in the
Building Online Brand Experience: Stimulus (S)-Organism (O)-Response (R) Framework

Online brand experience is the interaction, observation, and evaluation a consumer has with a brand website (Eroglu et al., 2001; Chen et al., 2010; Brakus et al., 2009; Zarantonello & Schmitt, 2010). Online brand experiences can be approached by the perspective of Stimulus (S)-Organism (O)-Responses (R) (Mehrabian & Russell, 1974). Based on the assumption that the cause of the behavioral changes depends on the quality of the stimulus that communicates with the organism, the S-O-R model is utilized as the website attributes (stimulus), consumer experiential states (organism), and the behavioral loyalty toward the brand (response) in this study. Stimulus as a sensory dimension of online brand experience relates to aesthetic, and functional perceptions for shopping environments, products, services, and brands (Bloch, Brunel, & Arnold, 2003; Brakus et al., 2009), representing website attributes in this study. Organism is theorized as the emotional and attitudinal state after the introduction of a stimulus, the organism for this study represents affective dimension as the consumer’s experiential state of mind after viewing the website attributes, which includes arousal and dominance (Russell & Mehrabian, 1977). Response refers to behavioral reactions of a consumer online brand experience that is identified intellectual and behavioral dimensions in Brakus’s et al. (2009)’s study. It is measured with intention to revisit the brand website and intention to visit store as the form of behavioral loyalty toward the brand in this study. Aligning the dimensionality of the brand experience with the Stimulus-Organism-Response (S-O-R) framework (Mehrabian & Russell, 1974), brand website attributes are placed as stimuli (Stimulus) that affect dominance and arousal as the consumer experiential states (Organism), which mediate consumer behavioral loyalty (i.e., intention to revisit the website and intention to visit the brand store) toward the brand (Response).

The Affective Dimension of Brand Experience: Arousal and Dominance

Developed as a psychology model, many researchers examined Mehrabian and Russell (1974)’s P-A-D (Pleasure-Arousal-Dominance) or PAT (Pleasure-Arousal Theory) (e.g., Russell, 1980, 1989) as dimensional theories of affective experiential states (Izard,
While pleasure and arousal have been considered different affective states in many studies, it was often addressed as unidimensional unless people’s beliefs are not elicited by direct questioning about the degrees of different emotional intensities (Reisenzein, 1994). In examining emotional intensities that are related to shopping experience influenced by website attributes (stimuli), arousal is more appropriate than pleasure to measure the extent to which a consumer feels excited or stimulated by the brand website attributes along with dominance relating to control over the retail environment.

In Donovan and Rossiter (1994)’ study, arousal created a positive desire to interact with the store environment and consumer likelihood to return to the same environment. Furthermore, dominance is strongly related to usability attribute of websites, which ultimately affect arousal states of consumers while engaging with a brand (Donovan & Rossiter, 1994; Mathwick & Rigdon, 2004). As Ha and Stoel (2006) noted, the consumer’s ability to engage with a website, through their understanding and control of the experience, led to positive responses towards the brand. Connecting the consumer’s need for dominance through the use of website functions and features can be a strong predictor of behavioral response, which is the result of positive online brand experience. As the change in traditional consumer behavior to prosumers (i.e., co-producers of brand), the extent to which behavior in the setting under the control of the consumer rather than a retailer and brand generates consumer positive experience (Foxall & Greenley, 2000) in the empowered consumer market. Thus, this study focuses on arousal and dominance in measuring online brand experience.

The Sensory Dimension of Brand Experience: Website Attributes

There have been various studies focusing on different aspects of website stimuli and exploring different sets of website attributes. Chen et al. (2010) identified five focal website attributes: usability, delivery, trust, convenience, and security which were linked to consumers overall satisfaction with the website experience. In evaluating perceived quality of websites, four attributes: ease of use, aesthetic design, processing speed, and security were identified in previous study (Yoo & Donthu, 2001). More comprehensive website attributes suggested in Wolfinbarger and Gilly (2003)’s study are fulfillment/reliability, customer services, personalization, usability, experiential atmospheric, ease of use, informativeness, selection, and security/privacy.

Drawing upon website attributes suggested in previous studies and emerging website attributes, five website attributes determined to be relative to the study are product presentation, interface design, security/privacy, personalization, interactive shopping services. Product presentation and interface design are proposed as website design in this study, encompassing aesthetic and functional aspects of website presentation. The aesthetic and functional aspects of website presentation are the overall look and feel of the website, which is considered as the continuity of the brand itself, and cohesive extension of the brand.

Product presentation is both aesthetic as well as functional features of the website design experience, as identified by Wolfinbarger and Gilly (2003). Product presentation is much like merchandising the physical floor of the store, relating to how the product is displayed on the website. Many studies have either ignored or dismissed the importance of this attribute, often associating it with the aesthetic dimension. However, product presentation differentiates itself by focusing solely on how the merchandise is portrayed on the website, from the types of models or images used to display it, as well as the tools designed to identify the products for giving informational cues. The quality of product presentation on the brand website can make
a consumer browse more on the website and it will arouse to engage in the brand website further. Thus, the following hypothesis is proposed:

H1: Product presentation is positively related to arousal state in experiencing the brand website.

*Interface design* refers to website design to connect and communicate effectively to the user with website components (Sanders, 1997). Previous literature (Constantinides, 2004; Nah & Davis, 2002) has attributed the success or failure of online experience to be strongly related to the functionality of the website interface. Functional aspects of website design can often be identified in terms of usability, which relates to the overall ease of the shopping or browsing experience, from product search to product/price comparisons (Chen et al., 2010). Functional design attributes refer to how the aesthetic and interactive appeal of the website adds to its’ user performance capabilities, such as navigation, speed, and accuracy of the site (Chen et al., 2010; Constantinides, 2004). Additionally, interface design is the strongest method of keeping consumers focused on and interacting with a website. For if the website has enough points of interests with the intricacy to keep consumers entertained while also providing simplicity in navigation to ease frustration, the website can keep consumers longer, typically resulting in greater degrees of positive affective and behavioral responses (Constantinides, 2004). In considering that interface design attribute facilitates consumer search product/shopping information more effectively and efficiently, the quality of interface design increases consumer feel of control over searching information on the brand website. Thus, the following hypothesis is proposed:

H2: Interface design is positively related to dominance state in experiencing the brand website.

*Security/privacy* refers to the websites ability to provide a secure infrastructure for consumers and is associated with the attribute leveraging consumer ability control their shopping transaction and privacy information. The security of a website is a vital attribute in building the trustful relationship between retailers and consumers. Security is a confidential infrastructure, which is reliably set up to protect consumer information (Chen et al., 2010), thus security often gets grouped with consumer privacy matters. Majority of the security and privacy aspects are related to the website transaction process involving with online transaction that lead to the consumer feeling secure with the brand whether they intend to purchase online or in the store (Ling et al., 2010; Constantinides, 2004). Security/privacy attribute leads consumer feeling of control over shopping information and transactions, thus:

H3: Security/privacy is positively related to dominance state in experience the brand website.

*Personalization* shopping service attribute provides individualized application of services to consumers and has been noted as an important factor of satisfaction in retail service settings (Bitner, Booms, & Tetreault, 1990). For this reason brands like Nordstrom and Shoe Dazzle have done everything from developing a “recommended for you” section, to personalized style advice sent to the consumer on a monthly basis. Personalization service refers to shopping service that occurs in the personal interaction intended to contribute to the individuation of the customer (Suprenant & Solomon, 1987). E-tail studies have focused on providing personalization shopping service attribute that meets individual consumer tastes as
well as communication intended to individual consumers (Wolfinbarger & Gilly, 2003). Personalization shopping services may increase consumer feelings of excitement and stimulation when the personalized services and suggestions meet consumer needs and wants from the brand websites. Thus, the following hypothesis is examined:

H4: Personalization shopping service attribute is positively related to arousal state in experiencing the brand website.

*Interactive shopping services* rely on the websites functional design that allows consumers to be a part of the online environment. Eroglu’s (2001) study on online store environments discusses the importance of building online environments that will engage consumers in the website and detract from their physical environment. Retailers can control the environment when the consumer is in the store, however there is no control over the environment a consumer is in when he or she is viewing the brand website. Therefore, developing the interactive services that enables consumers to control the shopping information is needed in the brand website. Furthermore, websites do not offer the peer validation of other shoppers, like store environments can, and therefore the need for customer reviews and peer feedback is imperative for the overall experience generated by the website (Eroglu, 2001). Identifying the difference between the types of services will help to better identify the types of attributes that are most important to consumers. Therefore, it was identified that one of the major environmental cues missing from an online store environment is the visible presence of sales associates, which makes the previous need for the above shopper services so necessary. Additionally, features like “in-store availability” have become staples on retail websites as many companies are beginning to understand the consumers desire to purchase or at least see the product in the store as well as online. Therefore, for this study, interactive shopping service is more about service associated with how the brand can better engage the customer. With the preceding discussion, the following hypothesis is examined:

H5: Interactive shopping service attribute is positively related to dominance state in experiencing the brand website.

With the advancement in web technology, website attributes have allowed retailers to let consumers dominate their experience. New innovations use previously stored data based on the consumer’s reference cookies to adjust the content, and sometimes navigation of web pages to each website visitors’ preferences, therefore allowing the consumer to be a co-producer of their environment. As shown in Donovan and Rossiter (1982)’s study dominance variable is strongly related to usability attribute of product and store environment, which ultimately affects arousal state of consumers while engaging with a retailer (Donovan & Rossiter, 1982; Mathwick & Rigdon, 2004). Further, dominance state is expected to increase with the extent to which behavior in the setting is under the control of the consumer rather than a retailer and brand (Foxall & Greenley, 2000). In reflecting the current empowered consumer market, the dominance state in experiencing the brand website may arouse consumer feeling to engage the brand website further and longer, thus the effects of website attributes on arousal state in experiencing the brand website can be mediated by dominance. Thus:

H6: Dominance state is positively related to arousal state in experiencing the brand website.

*The Effects of Affective Dimensions on Behavioral Loyal toward the Brand*
The affective experiential state of arousal positively affects consumer engagement with the brand. Previous study found that arousal created a positive desire to interact with the store environment, as well likelihood to return to the same environment (Donovan & Rossiter, 1982), showing in the form of loyal behavior toward the brand. In consumption environments, consumers form strong attachments to brands that predict their commitment and their willingness to make sacrifices in order to maintain the relationship, in turn introducing brand loyalty to consumers (Schlenker, Helm, & Tedeschi, 1973). In this study, behavioral loyalty toward the brand is measured with intention to revisit the brand website and intention to visit the brand store. Consumers’ continual evaluations of their experiences are based on not only the website experience that leads the consumer back to the website, but it is the overall brand experience had by the consumer (Ling et al., 2010). If the consumer’s online brand experience led them to the store and continues to be satisfactory, the consumer is more likely to return to the website and continue the circular relationship. Moreover, a study done by Riley (2010) found that website attributes such as website design, ease of use the website, and depth of engagement positively contributed to the consumer’s brand experience affecting consumer decision to visit the brand store. Relating to the intellectual and behavioral effects of brand experience, the study found that the more stimulating the shopping experiences were to the consumer, the more satisfaction the consumer felt with the retailer, creating a positive internal state formation for the brand (Riley, 2010). In turn, it has been shown that retaining a positive internal state toward a brand will lead the consumer to desire the recreation of that positive experience with the brand (Zarantonello & Schmitt, 2010). With the preceding discussion, the following hypotheses are examined:

H7a: Arousal state is positively related to intention to revisit the brand website.
H7b: Arousal state is positively related to intention to visit the brand store.

The hypothesized relationships in S-O-R framework are depicted in Figure 1.

Methodology

Data Collection

With the purpose of this study to measure online brand experience and its relation to behavioral loyalty toward the brand, this study asked the participants were prompted to think about one of five apparel retailers’ websites, www.gap.com, www.forever21.com, www.hm.com, www.jcrew.com, and www.abercrombie.com at the beginning of the survey. Those five websites are ranked in the top ten most recognized apparel companies (American Registry, 2011). The participants were then asked to answer the questions in association with his or her experience with that website. The participants were students at a public southwestern university and a total of 518 of the questionnaires were collected (86.3%). A total of 298 of the returned surveys with many missing answers, eliminated from the data set, resulting in a response rate of 42.4% and 220 usable data for the study.

Measures

The measures of the instrument were adapted from existing scales with good internal consistency in previous studies. A 7-point Likert scale anchored from 1 is ‘strongly disagree’ to 7 is ‘strongly agree’ were used to measure website attributes. Three items measuring product presentation were adapted from Jin and Park’s (2006) and Ha and Stoel (2009) and 6 items measuring interface design were adapted from previous studies (Silva & Awli, 2008;
Mathwick & Rigdon, 2004; Wolfinbarger & Gilly, 2003). Six items measuring security/privacy were adapted from previous studies (Jin & Park, 2006; Ha & Stoel, 2009; Silva & Awli, 2008; Wolfinbarger & Gilly, 2003). Three items measuring personalization were adapted from previous studies (Jin & Park, 2006; Ha & Stoel, 2009; Wolfinbarger & Gilly, 2003) and 3 items measuring interactive shopping services were self-developed with the purpose of reflecting current retailers' interactive shopping services offered. Arousal and dominance were measured with 3 items respectively, adapted from Mehrabian and Russell (1974)’s study and a 7-point bipolar semantic differential scale was used. Three items measuring intention to revisit the brand website and 3 items measuring intention to visit the brand store were adapted from behavioral intention study (Fishbein & Ajzen, 1975). A behavior likelihood scale was adapted on a 7-point Likert scale 1 is anchored on ‘very unlikely’ and 7 is anchored on ‘very likely’. The two steps of structural equation modeling were used to validate measurement model and to test hypotheses using Amos 19.0.

RESULTS

Sample Profile
Among the total of 220 usable responses, the mean age was between 18-21 years old, the sample consisted of majority of females (n=197) and Caucasian (n=93). Majority of participants was answer for survey questions about forever21.com (n=102) followed by gap.com (n=41), hm.com (n=36), jcrew.com (n=29), and abercrombie.com (n=12).

Measurement Model Evaluation
The quality of measurement model was assessed using Confirmatory Factor Analysis (CFA). One item on product presentation had a low factor loading (lower than .50) and dropped in further analysis in the study. After removing the item, the measurement model showed a good fit to the data ($\chi^2 = 664.270$ with 420 df at p-value < .001, CFI of .933, and RMSEA of .052). Reliability for each construct was assessed using Cronbach’s alpha, ranged from .70 to .90 meeting the recommended level of .70. Convergent validity was assessed with the magnitude of the factor loadings of each indicator of the latent constructs (Anderson & Gerbing, 1988). All items loaded on the intended constructs at the p value < .001 and the standardized factor loadings ranged from .57 to .87. The composite reliabilities of each construct ranged from .70 to .90, exceeding the recommended level of .65 (see Table 1).

Discriminant validity among constructs was confirmed by assessing the average variance extracted (AVE) for each construct and by comparing AVE and the squared correlations between the two constructs of interest. While the average variance extracted (AVE) for all constructs is above the recommended level of .50 except interactive shopping service construct (AVE=.46), AVEs for all constructs were greater than their squared correlations and satisfied discriminant validity (Fornell & Larcker, 1981) in this study (see Table 2). The results of AVE evaluation support adequate discriminant validity among construct. The quality of measurement items satisfies the requirements for testing hypotheses using the structural equation modeling.

Take in Table 1 & 2

Hypothesis Testing
The fit statistics of the structural model indicated an acceptable fit to the data ($\chi^2 = 770.872$ with 438 df at p-value < .001, CFI of .909, and RMSEA of .059). The result of hypothesis test for the effect of product presentation on arousal state was significant at p-value. 002 ($\Gamma = .231, t = 3.033$), thus, H1 was supported. The effect of interface design on dominance state (p-value = .001; $\Gamma = .290, t = 3.182$) and the effect of interactive shopping service on
dominance state (p-value = .023; \( \Gamma = .203, t = 2.276 \)) were significant and positive, supporting H2 & 5. Hypothesis test for the effect of security/privacy attribute on dominance state (p-value= .069) and the effect of personalization on arousal state (p-value=. 543) were insignificant, thus H3 and 4 were failed to support in this study. The effect of dominance state on arousal state was positive and significant (p-value < .01; \( \beta = .616, t = 6.088 \)), supporting H6. The hypothesis test for H7a and b were found significant, supporting that the effect of arousal state on intention to revisit the brand website (p-value < .01; \( \beta = .700, t = 9.289 \)) and the effect of arousal state on intention to visit the brand store (p-value < .01; \( \beta = .646, t = 7.808 \)) were positive and significant. The Squared Multiple Correlations (SMC) of intention to revisit the brand website, and intention to visit the brand store were .49 and .42 respectively, indicating that 49 % of variance in intention to revisit the brand website and 42 % of variance in intention to visit the brand store were explained by experience states which were formed by online shopping experience of the brand website attributes. The results of standardized path coefficients for each hypothesized path are provided in Table 3.

Further, mediating roles of experience states between website attributes and behavioral loyalty toward the brand were examined. The results showed that the effect of interface design on intention to revisit the brand website and intention to visit the store were mediated by dominance and arousal state (at p-value = .042). The effect of dominance on intention to revisit the brand website and intention to visit the brand store were mediated by arousal state in experiencing the brand website (at p-value= .010).

Take in Table 3

Discussion and Implications

This study examined the dimensionality and building process of online brand experience grounded in the Stimulus (S) - Organism (O)-Response (R) framework (Mehrabian & Russell, 1974) aligned with Brakus et al. (2009)’s brand experience dimensions. This study identified sensory, affective, and behavioral dimensions of online brand experience across channels with the emphasis of mediating role of the affective online brand experience.

Brand website attributes capture the sensory dimension of online brand experience and impact on consumer affective experiential states and behavioral responses toward the brand. In addition, this study contributes to identifying the critical mediating roles of affective dimension of dominance and arousal experience states in explaining how consumer online brand experience is formed and leads behavioral loyalty toward the brand and increasing the notion that online shopping experience is an extension of the brand experience. As shown in the study result, the quality product presentation can increase consumer arousal state in experiencing the brand website, generating positive intention to revisit the brand website and intention to visit the brand store. It suggests that product presentation increases consumer intensity to browse and search product information more in the brand website, further developing repatronage intention to the brand website and intention to visit the brand store. Consumers often visit the brand website for obtaining product information before visiting the brand store. Thus, when product presentation of the brand website creates favorable shopping experience, it increases consumer behavioral loyalty toward the brand.

As supported in this study, interface design, a culmination of functional and aesthetic website design, is important to consumer engagement and interaction with the brand website. The result showed that interface design attribute is a predictor of dominance and arousal experiential states developing positive experience of the brand and leading consumers to be loyal toward the brand. The aesthetics of website design such as layout of the website and
visual appeal help the consumer identify the retailer associated with the website and create the shopping environment for the consumer. Additionally, interface design including functional aesthetics (e.g., navigation design) ultimately caters to the consumers desire for ease of use and usability functions (Wolfgangbarger & Gilly, 2003; Ha & Stoel, 2006), increasing the consumer’s control over the experience in the brand website. The result is consistent with previous study that the more interaction a retailer can provide to a consumer through the website, the more command that consumer will feel over the experience (Wolfgangbarger & Gilly, 2003; Loiciacco et al., 2002).

Interactive services were developed to give consumers similar relational and social dimensions that are present in the store, but were previously missing from online shopping experiences. By providing interactive shopping service tools, consumers are likely to interact with other shoppers or sales associates, seeking opinions about products. Therefore, consumers can engage in the social and relational dimensions that enhance online brand experience. Further, interactive services enable consumers to gain tools that allow him or her to control and affect the experience. Therefore, the emotional state of dominance is fulfilled through the personal control over the situation.

The insignificant results of the effects of security/privacy and personalization shopping services on developing experiential states in this study may be attributes that are more likely to relate to cognitive states of trust and satisfaction in experiencing the brand website. Trust and satisfaction are dimensions associated with reliability, security, and confidence (Delgado, 2003), thus can be developed with security/privacy and personalization shopping service attributes.

The experiential state of arousal and dominance mediated the relationship between website attributes and behavioral loyalty toward the brand in this study. Arousal is viewed as consumer’s active engagement in the shopping experience (Mehrabian & Russell, 1974; Menon & Kahn, 2002) and the experiential state stimulated by an enjoyable experience. Aligning with the results of this study, if the consumer is enjoying his or her experience online, the consumer is more likely to relive that experience, leading to the consumer’s intention to revisit the website. Furthermore, the consumer’s desire to extend his or her enjoyment and experience with the brand store will be increased.

The modern consumer has become individualized and his or her desire for control over the shopping information has led dominance to be a key dimension in developing positive brand experience. Dominance is a critical in developing positive experience, and even more so for online brand experience (Surprenant & Solomon, 1987; Wang et al., 2011; Chen et al., 2010). This is aligned with the idea that consumers are reacting to the control that retailers are providing throughout the shopping experience.

**Implication for Retailers**

This study suggests that retailers need to be aware of the consumer’s interaction with the product presentations, interface design, and interactive services when developing the websites. Furthermore, special attention should also be paid to the types of services provided. Developing various service aspects on the website allows consumers the appropriate level of desired engagement with the brand. Additionally, practitioners need not to simplify retail websites in order to provide what may be deemed as ease of navigation for the generalized audience. Retailers need to understand that consumers are rapidly developing and all have different levels of user experience. Therefore, by developing multiple dimensions of
navigation the consumer can develop his or her own patterns of moving through the website. This allows the consumer the control he or she desires, while also building a multidimensional experience to stimulate a variety of consumers.

By linking the interactive services between the online experience and the in-store experience, the retailer has a better chance of developing brand loyalty with a consumer. This is due to the fact that retailers would be nurturing the consumer’s cross-channel relationships with the retailer. Leading consumers to engage in multiple experiences with the retailer ultimately allow the retailer to develop a stronger relationship with the consumer. Furthermore, as consumers are becoming marketers of brands themselves by promoting retailers through social media sites like Facebook, Twitter and Pinterest, practitioners need to understand how to extend interactive services to incorporate such external forums.

**Implication for Researchers**

There is a need for further research continues to examine relative and timely aspect of the ecommerce industry on the subject matter of online shopping experience, as well as the identification of website attributes. This study incorporated brand experience dimension into the S-O-R framework with new dimension of website attributes in order to update the framework on online brand experience that generates brand loyalty. Continual revisions to aspects of the framework as well as definitions for website attributes will be necessary to keep the research behind online brand experience as current as possible. In addition, there is a need for further research of cognitive aspects of trust and satisfaction in measuring consumer reactions to website, possible indirect/direct relationships among variables, and a need to identify other emerging website attributes (consumer-generated sources) that were not tested in this study.

**Limitations**

Due to convenience sampling and majority of female responses, this study may not be generalized to consumer group over the age of 35 and males. Additionally, though the five apparel stores asked to choose in participated in the study were identified as nationally recognized brands, a natural bias still remains. Furthermore, overall shopping and brand experience is limited to behavioral intention state. Conducting a study that follows up with consumers after an initial interaction with a retailer may give practitioners a better understanding of the entire online shopping experience.

**References**


Building Online Brand Experience: Driving Traffic to Online and Offline Stores


Table 1. Measurement Model

<table>
<thead>
<tr>
<th>Latent Construct</th>
<th>Observed Indicators</th>
<th>N=220</th>
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<td>Presentation</td>
<td>The website provides product pictures from various angles.</td>
<td>.57</td>
<td>.54</td>
<td>.70</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The website provides detailed merchandise.</td>
<td>.87</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interface</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design</td>
<td>The website organization facilitates searching for products.</td>
<td>.61</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>In this website I can easily find the product that I need.</td>
<td>.72</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The website organization and layout facilitates searching for the product.</td>
<td>.80</td>
<td>.58</td>
<td>.89</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The website has flexibility in my interaction while searching for more information.</td>
<td>.84</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>My website interaction is clear and understandable.</td>
<td>.83</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The website has an easy and efficient navigation.</td>
<td>.74</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latent Construct</td>
<td>Observed Indicators</td>
<td>N=220</td>
<td></td>
<td></td>
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<tr>
<td>------------------</td>
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<tr>
<td></td>
<td></td>
<td>Factor Loadings</td>
<td>AVE&lt;sup&gt;a&lt;/sup&gt;</td>
<td>α&lt;sup&gt;b&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td>Security/Privacy</td>
<td>Within the website my personal information is confidential.</td>
<td>.69</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The website clearly states privacy policy.</td>
<td>.70</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The website makes me feel safe in my transactions.</td>
<td>.85</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>The website has adequate security features.</td>
<td>.88</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>The website is reputable.</td>
<td>.74</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The website makes me feel like my privacy is protected.</td>
<td>.82</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personalization</td>
<td>This website provides personalized shopping services for me.</td>
<td>.72</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>This website cares about business with me by sending thank you email.</td>
<td>.75</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>This website makes purchase recommendations that match my needs.</td>
<td>.70</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interactive Services</td>
<td>The website is ready and willing to respond to customer needs.</td>
<td>.62</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The website allows me to check in-store product availability.</td>
<td>.70</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The website provides a live chatting feature.</td>
<td>.71</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dominance</td>
<td>Influenced-Influential</td>
<td>.62</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Submissive-Dominant</td>
<td>.81</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Autonomous-Guided</td>
<td>.68</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arousal</td>
<td>Bored-Stimulated</td>
<td>.78</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dull-Bright</td>
<td>.80</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Calm-Excited</td>
<td>.77</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intention to Revisit the Brand website</td>
<td>I intend to return to this website.</td>
<td>.90</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>I intend to visit the online retailer again.</td>
<td>.86</td>
<td></td>
<td>.90</td>
<td></td>
</tr>
<tr>
<td></td>
<td>I expect to revisit this website.</td>
<td>.84</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intention to Visit the Brand Store</td>
<td>I intend to visit this brand’s store.</td>
<td>.81</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>I have an intention to visit a store.</td>
<td>.84</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>I would like to visit a physical store.</td>
<td>.78</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> Average Variance Extracted, <sup>b</sup> Cronbach’s α
Table 2. Correlation Matrix of Variables

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Product Presentation</td>
<td>.54</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Interface Design</td>
<td>.33</td>
<td>.58</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Security/Privacy</td>
<td>.20</td>
<td>.19</td>
<td>.61</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Personalization</td>
<td>.06</td>
<td>.17</td>
<td>.22</td>
<td>.52</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Interactive Services</td>
<td>.00</td>
<td>.04</td>
<td>.05</td>
<td>.35</td>
<td>.46</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Dominance</td>
<td>.05</td>
<td>.14</td>
<td>.08</td>
<td>.15</td>
<td>.10</td>
<td>.50</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Arousal</td>
<td>.10</td>
<td>.18</td>
<td>.15</td>
<td>.08</td>
<td>.01</td>
<td>.43</td>
<td>.62</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Intention to revisit the brand website</td>
<td>.07</td>
<td>.18</td>
<td>.15</td>
<td>.13</td>
<td>.01</td>
<td>.17</td>
<td>.39</td>
<td>.75</td>
<td></td>
</tr>
<tr>
<td>9. Intention to visit the brand store</td>
<td>.02</td>
<td>.00</td>
<td>.07</td>
<td>.02</td>
<td>.00</td>
<td>.12</td>
<td>.31</td>
<td>.61</td>
<td>.65</td>
</tr>
</tbody>
</table>

The AVE is reported on the diagonal

Table 3. Results of Hypothesis Testing

<table>
<thead>
<tr>
<th>Paths</th>
<th>N=220</th>
<th>Standardized Coefficients</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: Product Presentation -&gt; Arousal</td>
<td></td>
<td>.231*</td>
<td>3.033</td>
</tr>
<tr>
<td>H2: Interface Design -&gt; Dominance</td>
<td></td>
<td>.290*</td>
<td>2.276</td>
</tr>
<tr>
<td>H3: Security/Privacy -&gt; Dominance</td>
<td></td>
<td>.159</td>
<td>1.818</td>
</tr>
<tr>
<td>H4: Personalization -&gt; Arousal</td>
<td></td>
<td>.046</td>
<td>.608</td>
</tr>
<tr>
<td>H5: Interactive Shopping Service -&gt; Dominance</td>
<td></td>
<td>.203*</td>
<td>2.276</td>
</tr>
<tr>
<td>H6: Dominance -&gt; Arousal</td>
<td></td>
<td>.616**</td>
<td>6.088</td>
</tr>
<tr>
<td>H7a: Arousal -&gt; Intention to Revisit the Brand Website</td>
<td></td>
<td>.700**</td>
<td>9.289</td>
</tr>
<tr>
<td>H7b: Arousal -&gt; Intention to Visit the Brand Store</td>
<td></td>
<td>.646**</td>
<td>7.808</td>
</tr>
</tbody>
</table>

p*<.05, **p < 0.01
Figure 1. Hypothesized Relationship in Building Brand Experiences across Channels
Using Factor Cluster Analysis to Segment Patrons of Casual Dining Establishments in the United States

ABSTRACT

Factor cluster analysis is an alternative segmentation method to more traditionally used methods based on the demographic profiles of consumers. Though not often used in the hospitality industry, especially in restaurants, it can segment diners based on behavioral intentions and attributes, allowing marketers to more accurately target these diverse consumer segments. Focusing on the behaviors and attitudes of casual dining patrons, this study uses the factor cluster approach to segment patrons into three marketing segments and attempts to determine if differences exist in the push and pull factors among the three segments. Push and pull motivators were first analyzed through factor analysis to determine important groupings, and then a k-means cluster analysis was conducted to segment individuals based on factor importance and to identify homogenous subgroups of participants. Three diverse groups are identified and discussed: Fraternizing Kitchen Fearfuls, Functional Feasters, and Foodie Fanatics. The various push and pull factors appeared to affect segments differently, with each cluster ascribing various importance levels to each of the factors used in the clustering approach.

Keywords: Casual Dining Restaurant, Involvement, Push-Pull Motivation, Factor Cluster Analysis, Consumer Behavior, Segmentation

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Factor cluster analysis is an alternative segmentation method to more traditionally used methods based on the demographic profiles of consumers. Though not often used in the hospitality industry, especially in restaurants, it can segment diners based on behavioral intentions and attributes, allowing marketers to more accurately target these diverse consumer segments. Focusing on the behaviors and attitudes of casual dining patrons, this study uses the factor cluster approach to segment patrons into three marketing segments and attempts to determine if differences exist in the push and pull factors among the three segments. Push and pull motivators were first analyzed through factor analysis to determine important groupings, and then a k-means cluster analysis was conducted to segment individuals based on factor importance and to identify homogenous subgroups of participants. Three diverse groups are identified and discussed: Fraternizing Kitchen Fearfuls, Functional Feasters, and Foodie Fanatics. The various push and pull factors appeared to affect segments differently, with each cluster ascribing various importance levels to each of the factors used in the clustering approach.
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INTRODUCTION

Americans spend nearly $1.7 billion daily on dining outside the home, nearly half of which is spent in restaurants across the country, with an average family spending over $2500 dining out in 2010 (NRA, 2012). In a study conducted by the Pew Research center in 2006, 66% of Americans admitted to eating outside the home once a week or more, and a more recent study by the National Restaurant Association (2012) says that the Americans purchase food from a restaurant six times per week, showing a significant increase from just a few years before. With growing competition in the restaurant industry, it becomes crucial for restaurants to differentiate themselves from the competition in order to appeal to more broad population segments (Baltazar, 2011). A casual restaurant is one in which offers a full service dining experience at a moderate price. Outback Steakhouse® pinpointed the 18 to 53 year old market as the target market for their brand (Berry, Blankenstein, Britz, & Zuchowicz, 1998). Additionally, a report conducted by Brinker International (2010), operator of casual restaurant brands such as Chili’s® and Macaroni Grill®, identified consumers between the ages of 18 and 54 years old as the target market for their brand. Due to the prevalence of a younger target market for casual dining restaurants, it is important to obtain a sample dominated by this age group.

When deciding to dine out, options are seemingly endless, from fast-food establishments, to casual restaurants, to a five star dining experience. What factors push consumers to dine outside the home and what elements draw them in to a specific restaurant? Consumers sometimes draw on previous knowledge or former experiences, repeating actions in which a satisfactory result was achieved before (Njite, Dunn, & Kim, 2008), but a true decision must be reached at other times and a consumer must actively make a choice. These decisions often fall along a spectrum ranging from habitual decisions that are quickly made, to well thought through resolutions, using complex reasoning to come to a conclusion (Njite, Dunn, & Kim, 2008). Few previous studies have examined the consumer decision making process regarding dining outside the home (Epter, 2009; Warde & Martens, 2000). However, studies have been completed analyzing the importance of certain restaurant attributes (Rydell, Harnack, Oakes, Story, Jeffery, & French, 2008; Choi & Zhao, 2010; Harrington, Ottenbacher & Kendall, 2011). Commonly cited reasons for dining at fast food establishments included convenience and socialization elements, such as “they are quick”, “they are easy to get to”, and “it’s a way of socializing with friends and family” (Rydell et al., 2008). At fine dining establishments, Njite et al. (2008) acknowledged employee competence, convenience, and customer relations as the most important factors influencing consumers to dine at a specific restaurant.

The means by which consumers of casual dining restaurants are segmented can provide significant information on motivations, as well as the nature of the market overall. Though the means in which the market is segmented (either by involvement or cluster) is a topic commonly debated in literature (Moscardo, Pearce, & Morrison, 2001), the decision to segment by cluster analysis or involvement is critical to the understanding of the characteristics and motivations of the casual restaurant diner. While the involvement construct focuses on perceived relevance by an individual based on inherent needs, values and interest (Zaichkowsky, 1985; Josiam, Huang, Bahulkar, Spears, & Kennon, 2012), the
cluster analysis approach focuses on identifying distinguishing factors between consumer
groups.

The involvement construct developed by Zaichkowsky (1985) has frequently been
implemented as a tool of both tourism research and shopping and merchandising research
(Yuan & McDonald, 1990; Uysal & Hagan, 1993; Uysal & Jurowski, 1994; Clements &
Josiam, 1995; Josiam, Kinley, & Kim, 2004; Smith, Costello, & Muenchen, 2010; Kinley,
Josiam, & Lockett, 2010), but little research has been conducted to date on its application in
the hospitality industry to examine involvement in casual diners (Kalldin & Josiam, 2013).
Additionally, the push-pull framework has been used extensively within shopping and
tourism research (Klenosky, 2002; Pesonen, Komppula, Kronenberg, & Peters, 2011; Josiam
et al., 2004), but again little research has been conducted using the push-pull framework to
determine what drives people to dine out of their homes and what draws them into a
particular casual dining restaurant. Finally, factor-cluster analysis has also been used in
tourism research to segment consumers (Josiam et al., 2012; Yuksel & Yuksel, 2002a; Yuksel
& Yuksel, 2002b), but has not been effectively used within the hospitality industry to
segment consumers of casual restaurants into broad groups.

This study addresses these identified gaps in the literature. Looking at the involvement
construct in conjunction with the push-pull framework adapted from previous research, this
study attempts to segment casual dining consumers through the statistical procedure of factor
cluster analysis into homogenous clusters based on important push-pull factors, involvement,
and demographic characteristics to aid restaurateurs in identifying the different diner groups
visiting casual restaurants.

LITERATURE REVIEW

**Push and Pull Motivators**

Crompton’s push and pull motivators have been used in several studies in the tourism
industry to demonstrate the processes behind an individual’s decision to visit a specific
location (Baloglu & Uysal, 1996; Kim, Lee, & Klenosky, 2003; Sangpikul, 2008;
Verrasontorn & Beise-Zee, 2010; Shi, Cole, & Chancellor, 2011). A push motivator can be
described as a psychological motivation in which an individual is predisposed to an event,
like traveling or dining out, while a pull motivator attracts an individual to a particular
location (Baloglu & Uysal, 1996). Push factors, as defined by Wang (2004, p. 368) are those
“factors that motivate or created a desire”. In addition, it is important to note that push and
pull factors are two separate decisions, made in two separate frames of time (Kim, 2006),
though they are “not independent even if they appear to be conceptually distinguished from
each other” (p.18). In other words, the decision is made in two separate but sequential stages,
and can be unconsciously or consciously made. A consumer is first pushed by internal needs
and then pulled by external resources (Kim, 2004). In a study completed by Josiam et al
(2004), push and pull motivators of tourist shoppers were analyzed and subsequently grouped
through factor analysis into 6 push factors and 4 pull factors. Another study completed by
Josiam et al. (2012) identified 5 push motivator factors and 4 pull motivator factors
push factors and 4 pull factors of tourists selecting mountain resorts. Though commonly used
in tourism, this conceptual framework has been primarily ignored in other realms of
hospitality.
By implementing the push-pull framework, researchers can examine how consumers of casual dining restaurants select where to dine. Similar to the definition used in tourism research as laid out by Baloglu & Uysal (1996), a push motivator is a motivation that encourages an individual to dine outside the home, while a pull motivator attracts an individual into a casual dining establishment. Little research has been completed documenting why Americans dine out (Epter, 2009). Cullen (2004) identified two primary reasons Dubliners use for dining outside the home: special occasions, and to replace a home cooked meal. Findings were verified by Narine and Badrie (2008) in a study which found that special occasions topped the list of reasons to dine outside of the home, followed by meeting with friends, and convenience. Convenience was also identified by Epter (2009), as well as socialization, as commonly reported reasons to dine out. Restaurant attributes are the primary pull factors influencing an individual’s decision to dine at a specific restaurant. In fine dining, customer relations ranks high on attributes influencing patronage, with price unsurprisingly ranking low (Njite et al., 2008). In fast-food restaurants, speed of service and convenience ranked highly (Rydell et al, 2008). Furthermore, other studies have identified value, cleanliness, promotions, portion size, food quality, atmosphere, selection, and location as important attributes influencing patronage (Cullen, 2004; Choi & Zhao, 2010; Harrington et al., 2011; Yamanaka, Almanza, Nelson, & DeVaney, 2003).

**Repeat and Referral Patronage**

In today’s marketplace, consumers have endless choices as to where to dine for a meal (Harrington et al., 2011). In order to achieve success in today’s business environment, owners and operators of restaurants must understand their customers’ needs and the motivations which drive them to dine at one restaurant over another similar option (Batty, Grindy, Riehl, Smith, & Stensson, 2012). Looking at the competitive nature of the hospitality industry, Harrington et al. (2011) stated that managers of restaurants must understand the preferences of their patrons in order to integrate customer demands into product and service attributes. Yoon and Jung (2012) cite the importance of customer satisfaction as an antecedent factor in customer loyalty. Additionally, research suggests that attracting new patrons is more difficult that it is for them to capture the patronage of repeat customers. Due to this importance of repeat patronage at the full service restaurant, appealing to the needs and motives of frequent diners is essential for continued success and growth.

A frequent full service customer, as defined by Batty et al. (2012), is one who visits a full service restaurant, on average, more than once a week. During both good and bad times, it is these regular consumers who are ultimately the core customer base. Furthermore, research has reported behavioral signals suggesting bond formation between restaurant and customer. Namkung and Jang (2007) believe that bond formation is indicated through behaviors such as leaving a significant tip, or complimenting the chef or wait staff. These behaviors are also indicators of how a consumer may define engagement and involvement levels with a particular restaurant.

**Involvement Construct**

Involvement is an emotional state directed by motivations and goals that determines how relevant a decision to purchase is to a consumer (Brennan & Mayondo, 2000). Past research has shown that it has much influence on consumer decision making, making it a considerably important element when defining and assessing the evaluation of services or products (Chang, Burns, & Francis, 2004; Cohen & Goldberg, 1970).
Zaichkowsky (1985) created the involvement scale commonly used in consumer behavior research. It subdivides involvement into three separate categories. These three categories are personal involvement, physical involvement, and situational involvement. Clements and Josiam (1995) reduced the original 20-item scale to 15 items, and then the scale was further reduced to 10 items in 2004 by Josiam et al. Looking at personal involvement, the involvement construct sheds light on consumer’s needs and interest, as well as their values, and can help illustrate how guest involvement influences casual dining patronage.

Within the hospitality industry, Peters (2005) conceived that involvement is better viewed as a function of both subject and object, as well as situation. Furthermore, restaurants seem to be highly influenced by situational factors. The involvement process “starts with the client, depends on the motives, and drives to a specific restaurant which fulfills, or at least intends to, this conjunction of subject/situation/object, translating particular needs and values” (Peters, 2005). Where high involvement exists, consumers usually are more thorough with information search and processing. Further studies have advocated that consumers expressing high involvement also recognize greater benefits when in a situation with high-contact customized service rather than standardized service with moderate contact (Kinard & Capella, 2006).

The involvement construct has frequently been utilized in studies of consumer behavior, including tourism (Clements & Josiam, 1995; Zalatan, 1998; Josiam, Smeaton, & Clements, 1999; Josiam et al., 2004; Kantanen & Tikkanen, 2006; Sharma & Dyer, 2009; Kinley, Josiam, & Lockett, 2010) and occasionally in other areas of hospitality including studies completed by Beldona, Moreo, and Mundhra (2010) and Bruwer and Huang (2012), but little has been currently done using the involvement construct in restaurants, especially when looking at casual dining restaurants (Peters, 2005; Jaeger, Danaher, & Brodie, 2010; Kim, Jeon, & Sunghyup, 2012; Jung & Yoon, 2012). Clements and Josiam (1995) noted that students expressing high involvement traveled more during spring break than students with lower involvement. In 2012, a study conducted by Josiam et al. revealed that highly involved cruise patrons were more motivated by the all-inclusive package offered by the cruise, and the opportunity for enjoying high quality services while aboard the cruise much more than those with lower involvement. Furthermore, within the restaurant industry, Peters (2005) analyzed involvement of consumers in fine dining establishments, finding that involvement is influenced by subject, object, and situation. Additionally, Leach (2010) measured involvement in relation to food hygiene, finding that even when quality and price is good, consumers are unlikely to return to a restaurant they consider unhygienic.

**Factor Cluster Analysis**

Cluster analysis has long been used as a means of market segmentation, allowing for increases in efficiency and the effectiveness of a business’s marketing budget (Kotler & Mc Dougual, 1983; Lewis & Chambers, 1989; Jurowski & Reich, 2000). Traditionally, hospitality research segments markets a priori, first selecting a defining variable, then segmented based on this variable. Finally, characteristics of the segments are described primarily based on the original descriptor variable, as well as other attributes (Jurowski & Reich, 2000). Often, consumers are grouped by age, gender, service preferences, or by purpose (Becker-Suttle, Weaver, & Crawford-Welch, 1994; Mooney & Penn, 1985; Knutson, 1988). While these descriptive methods provide useful data for market segmentation, they cannot reveal patterns or imply causation (Jurowski & Reich, 2000), and thus Crawford-Welch (1990) calls for the industry to implement multivariate techniques instead of...
Using Factor Cluster Analysis to Segment Patrons of Casual Dining Establishments in the United States

descriptive methods to gain a better understanding of marketing segments. One of these multivariate methods is the cluster analysis.

Commonly used in marketing research and the tourism/travel industry to segment market groups (Furse, Punj, & Stewart, 1984; Sargeant, 1997; Cha, McCleary, & Uysal, 1995; Josiam et al., 2012), it has been neglected as a useful means of segmentation in hotel and restaurants. As of 2000, few studies within the hospitality industry had successfully used this segmentation technique. Lewis (1985) looked at the perceptions of guests at hotels and found three segments based on important hotel attributes. Additionally, Swinyard & Struman (1986) found three natural segments – family diners, romantics, and entertainers – based on multiple restaurant factors. Since 2000, the cluster method has increased in popularity, but is still infrequently used in the academic literature pertaining to the restaurant industry to segment consumers into distinct marketing segments.

Additionally, the frequent use of demographic characteristics, such as age, race, and gender, as variables for segmentation have been criticized as they often are poor predictors of behavior (Becker-Suttle et al., 1994; Yuksel & Yuksel, 2002b). Successful segmentation methods based on buying behavior, consumer decision making, and consumer buying situations have emerged in the past decade, as well as segmenting by factors. Furthermore, benefits segmentation has also emerged, allowing the identification of market segments through the use of causal factors. “It is reported that benefits predict behavior better than personality and lifestyle, volumetric, demographic, or geographic measures, which merely describe behavior without explaining it” (Yuksel & Yuksel, 2002, p. 319).

Carlson, Kinsey, & Nadav (2002) used a cluster analysis method to segment consumers by dining habits based on where they obtained their food. The k-cluster method used in their study is one of the more useful techniques for clustering sets of data that are relatively large and the goal is to sort respondents into meaningful groups that describe their behavior (Hartigan, 1985; Carlson et al., 2002). This procedure selects initial cluster centers from an initial observation, and then sorts the subsequent observations into the nearest clusters. Each time a new observation is added to a cluster, the cluster mean is recalculated, and data is re-centered. “If this recalculated cluster-center changes another cluster that it is closest to an observation already in the cluster, then k-means moves that observation to the closest cluster and recalculates the center of its new cluster. The process continues until the number of changes is very small” (Carlson et al., 2002). Furthermore, Yuksel and Yuksel (2002a) looked at tourists’ dining preferences and used the k-cluster method to segment consumers into five distinct segments. Step one included a factor analysis using varimax rotation, followed by a reliability analysis. K-cluster analysis was then used to segment tourist based on similar characteristics and restaurant selection attributes. Finally, a discriminant analysis was conducted to determine if significant differences in restaurant selection criteria existed between segments.

As noted by Yuksel and Yuksel (2002b), factor-cluster analysis is a two part procedure, first involving defining important segment characteristics through a factor analysis, then clustering these variables to create homogenous segments. The k-cluster analysis is often used for the cluster analysis as it is less sensitive than other methods to outliers in the data, and is much more appropriate for large data sets (Sung, 2004). Additionally, this method is best when data is presented on like scales, as different scales can be misinterpreted and clustered poorly.
OBJECTIVES

Using the involvement construct and cluster analysis, this study examines the use of different segmentation methods to achieve market differentiation, allowing marketers to devise new marketing strategies that better attract the market segments identified. The specific objectives of this study were as follows:
To identify the level of involvement of patrons at casual dining restaurants.
To segment patrons at casual dining restaurants based on involvement level.
To segment patrons at casual dining restaurants using factor cluster analysis.
To distinguish important push and pull factors among diners
To identify homogenous cluster groups based on important push and pull factors
To determine differences between clusters based on push/pull motivations, involvement, and demographics

METHODS

Sample and Data Collection

For this study, “casual restaurant” was defined as a full-service restaurant which offers moderately priced food in a casual atmosphere. Examples of casual restaurants in the United States include, but are not limited to, Red Lobster®, Outback Steakhouse®, Chili’s®, On the Border®, and Applebee’s®. As previously stated, both Outback Steakhouse® and Chili’s® consider their primary target market between the ages of 18 and approximately 55. Due to the prevalence of a younger demographic as the target market for casual dining restaurants, researchers sought to obtain a sample dominated by the 18-55 year old demographic. For the 18-25 year old segment, a student sample was surveyed. Those enrolled in classes at a prominent university in the Southwest region of the United States were approached in a classroom setting and offered the option to participate in the survey in exchange for class credit. The 26-55 year old age group was surveyed at an on-campus restaurant at the same university. Diners were approached and asked for their participation by researchers before they had ordered their meal. No incentives were given to diners. Though the majority of the sample was college students, this group had formidable spending power, with an increase in discretionary spending of 13% seen between 2009 and 2010. Greenberg (2010) reported that students spent $13 billion while dining out in 2011, making the college market a relevant sample for this study.

To mitigate for this convenience sampling method, a sample size of 600 was targeted. Researchers gathered a total of 559 usable surveys over a two month period. Statistical Package for the Social Sciences (SPSS) was used for all statistical analysis.

Instrument Development

Involvement was measured using a 10 point bipolar scale adapted by Josiam et al. (2004). The scale was originally constructed by Zaichkowsky (1985) with 20 bipolar scaled questions, with a reported Cronbach’s alpha equal to .95, showing high reliability of the involvement construct.

All respondents were asked to indicate personal involvement levels as a diner at a casual restaurant for each item featured on a 5 point Likert scale, with 1 indicating the lowest involvement level and 5 indicating the highest involvement level. The original scale used by Josiam et al. (2004) utilized a 7 point scale, but for this study researchers condensed the scale.
to reflect the style of other scales used across the survey. The calculation of involvement was done using SPSS. Involvement scores added each respondent’s scores for the 10 variable of involvement and a mean was then calculated.

Push motivators reflect casual dining consumer’s motivations for dining at a restaurant instead of dining at home. The respondents were asked to identify the frequency of use of nine push motivators for dining out in a casual restaurant, also listed on a 5 point scale ranging from “never” (1) to “always” (5). Examples of push motivators included “I do not like to cook”, “I do not like washing dishes”, and “I am craving a specific menu item at a restaurant”. These push motivators were adapted from previous studies including Epter (2009), Warde and Martens (2000), and Cullen (2004).

Pull motivators reflected survey respondents’ motivations for eating at a specific location. Each participant was asked to indicate the importance of pull motivators when selecting a casual dining restaurant. The twenty-three attributes consisted of items such as “The restaurant appears to be clean”, “the location of the restaurant”, “the staff is well-trained and competent”, and “the staff provides consistent service”. Pull motivators were also measured on a 5 point scale, this time ranging from “not important’ (1) to “extremely important” (5). Pull motivators were drawn from several previous studies, including Harrington et al. (2010; 2011), Choi and Zhao (2010), and Yamanaka et al. (2003).

Additionally, researchers looked at experience outcomes within the survey. Respondents were asked 4 questions about their reactions to different restaurant experiences and asked to rate each on a 5 point likert scale from strongly agree to strongly disagree. Questions in this section regarded loyalty and revisit intentions.

**RESULTS AND DISCUSSION**

Researchers gathered a total of 559 usable surveys. The sample population was predominately Caucasian females with some college education. Most were students between the ages of 18-25, which could be expected as researchers administered the survey in a university setting. Sample demographics (Table 1) vary from the general American population, but are still applicable to the restaurant industry. As previously indicated, casual restaurants in the United States target a population between 18 and 54 years (Berry et al., 1998). As indicated previously, the purchasing power of the college student in America is substantial, with over $13 billion spent on dining out in 2011 (Greenberg), thus the strong prevalence of the college aged consumer in this study should not be discounted.

Looking at the family life cycle stages in consumer behavior, age demographics were subdivided into four brackets roughly coordinating with family life stages: young/single, young/married, married/kids, and empty-nesters (Murphy & Staples, 1979; Lansing & Kish, 1957). Young/single and young/married, especially those who are pre-children, spend more on dining out due to a higher reported discretionary income. Additionally, empty-nesters also report higher discretionary spending, but dine out less regularly than younger age groups (Kotler, Bowen & Makens, 2006). Furthermore, Zalatan (1998) indicated a shift to women as the family’s primary decision maker over the last twenty years, which indicates high purchasing potential of females. Thus, the overrepresentation of females in the study is relevant.
Table 1: Demographic characteristics of the sample

<table>
<thead>
<tr>
<th>Demographics</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>186</td>
<td>33.3</td>
</tr>
<tr>
<td>Female</td>
<td>367</td>
<td>65.7</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-25 years old</td>
<td>287</td>
<td>51.3</td>
</tr>
<tr>
<td>26-35 years old</td>
<td>104</td>
<td>18.6</td>
</tr>
<tr>
<td>36-55 years old</td>
<td>98</td>
<td>17.5</td>
</tr>
<tr>
<td>56+ years old</td>
<td>69</td>
<td>12.3</td>
</tr>
<tr>
<td><strong>Race</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>African American</td>
<td>46</td>
<td>8.2</td>
</tr>
<tr>
<td>Caucasian/White American</td>
<td>390</td>
<td>69.8</td>
</tr>
<tr>
<td>Hispanic American</td>
<td>51</td>
<td>9.1</td>
</tr>
<tr>
<td>Other</td>
<td>72</td>
<td>12.9</td>
</tr>
<tr>
<td><strong>Level of Education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High school/GED</td>
<td>42</td>
<td>7.5</td>
</tr>
<tr>
<td>Some College/Associate Degree</td>
<td>296</td>
<td>53.0</td>
</tr>
<tr>
<td>Bachelor’s Degree</td>
<td>137</td>
<td>24.5</td>
</tr>
<tr>
<td>Graduate Degree</td>
<td>81</td>
<td>14.5</td>
</tr>
<tr>
<td><strong>Student Status</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student</td>
<td>323</td>
<td>57.8</td>
</tr>
<tr>
<td>Not a student</td>
<td>230</td>
<td>41.1</td>
</tr>
</tbody>
</table>

*Note:* totals differ due to missing data
Objective 1: To identify level of involvement of patrons at casual dining restaurants

Table 2: Casual Dining Involvement Levels

<table>
<thead>
<tr>
<th>Level</th>
<th>Low Involvement</th>
<th>Medium Involvement</th>
<th>High Involvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>N (%)</td>
<td>53 (9.5%)</td>
<td>342 (61.2%)</td>
<td>164 (29.3%)</td>
</tr>
<tr>
<td>Mean involvement</td>
<td>3.25</td>
<td>2.34-3.66</td>
<td>3.67-5.00</td>
</tr>
<tr>
<td>Median involvement</td>
<td>=3.30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modal involvement</td>
<td>=3.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliability</td>
<td>=.91</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The 10-item involvement scale utilized within this research was taken from Josiam et al.’s (2004) study of involvement in the tourist shopper, which had been adapted from Zaichkowsky’s (1985) involvement scale with 20 questions on a bi-polar scale. Cronbach’s alpha was determined to be .91 for this scale, indicating high reliability. This is only slightly lower than the reliability found by Josiam et al. (2004) and Zaichkowsky (1985), both reporting Cronbach’s alpha of .95. The high alpha value of the modified scale used in this study gives researchers the confidence to utilize this measure of involvement in future studies related to restaurant consumers.

The involvement mean was determined to be 3.25 (SD = .7203) on a 5.0 scale, with a median reported score of 3.30. As the mean and median are similar, a normal distribution is indicated (Table 2). The range of mean involvement was subdivided into three involvement categories: low (1.00-2.33), medium (2.34-3.66), and high (3.67-5.0). The study of involvement is relatively new to restaurant research, with no identified previous studies using the involvement construct to segment consumers. However, it has frequently been implemented in tourism and retail researcher. Josiam et al. (2004) conducted similar analyses using a 7 point involvement scale and found a majority of tourist shoppers fall into the medium involvement category. Low involvement tourist shoppers were fewest in number and high involvement tourist shoppers represented about one-third of the sample. Similarly, analyses indicate comparable numbers to the tourist shopper study, with over 60% falling in the medium involvement category and fewer than 10% of diners falling in the low involvement category. As eating is a basic need all humans must satisfy, it is not surprising to find that few diners were categorized as low involvement.
Objective 2: To segment patrons at casual dining restaurants based on involvement level.

The cross-tabs analysis with chi-squared was utilized to examine the relationship between demographic characteristics of diners and involvement levels (Table 3). Significant differences were identified between male and female diners when looking at involvement levels. Males reported significantly lower involvement scores than females regarding dining in casual restaurants. Involvement segments were not significantly different in terms of age, race, level of education, and student status.

<table>
<thead>
<tr>
<th>Demographic Characteristics</th>
<th>Low Involvement</th>
<th>Medium Involvement</th>
<th>High Involvement</th>
<th>Chi-square</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
<td></td>
<td>8.720*</td>
</tr>
<tr>
<td>Male</td>
<td>14 (26.4)</td>
<td>130 (38.3)</td>
<td>42 (26.1)</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>39 (73.6)</td>
<td>209 (61.7)</td>
<td>119 (73.9)</td>
<td></td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
<td></td>
<td>6.079</td>
</tr>
<tr>
<td>18-25 years old</td>
<td>27 (50.9)</td>
<td>172 (50.4)</td>
<td>88 (53.7)</td>
<td>(NS)</td>
</tr>
<tr>
<td>26-35 years old</td>
<td>12 (22.6)</td>
<td>71 (20.8)</td>
<td>21 (12.8)</td>
<td></td>
</tr>
<tr>
<td>36-55 years old</td>
<td>7 (13.2)</td>
<td>58 (17.0)</td>
<td>33 (20.1)</td>
<td></td>
</tr>
<tr>
<td>56+ years old</td>
<td>7 (13.2)</td>
<td>40 (11.7)</td>
<td>22 (13.4)</td>
<td></td>
</tr>
<tr>
<td><strong>Race</strong></td>
<td></td>
<td></td>
<td></td>
<td>5.441</td>
</tr>
<tr>
<td>African American</td>
<td>3 (5.7)</td>
<td>23 (6.7)</td>
<td>20 (12.2)</td>
<td>(NS)</td>
</tr>
<tr>
<td>Caucasian</td>
<td>37 (69.8)</td>
<td>245 (71.6)</td>
<td>108 (65.9)</td>
<td></td>
</tr>
<tr>
<td>Hispanic American</td>
<td>6 (11.3)</td>
<td>31 (9.1)</td>
<td>14 (8.5)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>7 (13.2)</td>
<td>43 (12.6)</td>
<td>22 (13.4)</td>
<td></td>
</tr>
<tr>
<td><strong>Level of Education</strong></td>
<td></td>
<td></td>
<td></td>
<td>1.537</td>
</tr>
<tr>
<td>High School/GED</td>
<td>5 (9.6)</td>
<td>25 (7.4)</td>
<td>12 (7.3)</td>
<td>(NS)</td>
</tr>
<tr>
<td>Some College/Associate Degree</td>
<td>29 (55.8)</td>
<td>178 (52.4)</td>
<td>89 (54.3)</td>
<td></td>
</tr>
<tr>
<td>Bachelor’s Degree</td>
<td>13 (25.0)</td>
<td>85 (25)</td>
<td>39 (23.8)</td>
<td></td>
</tr>
<tr>
<td>Graduate Degree</td>
<td>5 (9.6)</td>
<td>52 (15.3)</td>
<td>24 (14.6)</td>
<td></td>
</tr>
<tr>
<td><strong>Student Status</strong></td>
<td></td>
<td></td>
<td></td>
<td>5.377</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(NS)</td>
</tr>
</tbody>
</table>
Women are becoming the primary purchaser for the household, as noted by Josiam et al. (2004) and Zalatan (1998). Females hold more purchasing power than before and thus, appealing to the female head of households is becoming an essential marketing strategy for many brands, including restaurants. Globally, women control nearly $20 trillion annually of consumer spending (Silverstein & Sayre, 2009). Restaurant owners and managers who appeal to the needs and motives of women are likely to attract more business than those who ignore the purchasing power of the female head of household.

Objective 3: To segment patrons at casual dining restaurants using cluster analysis.

The factor-cluster analysis method is a multiple step procedure to determine the best segmentation possible of groups. First, a factor analysis and reliability tests were conducted to condense variables into important classification groups. Then, K-means cluster analysis was run on the data set to determine cluster membership. A discriminant analysis was then conducted to determine distinguishing characteristics of each segment.

Steps 1 & 2: Factor Analysis & Reliability Analysis

Table 4 and Table 5 illustrate the results of factor analysis on push and pull motivators. 2 push factors were identified from 9 loading variables, and 7 pull factors resulted from 23 loading variables. Reliability analysis was conducted on each resulting factor and reported in the tables below. Additionally, 10 involvement variables were factored down to one variable with a Cronbach’s alpha of .91.

Each factor was named according to the characteristics of the variables which composed the factor. The first push factor was named Culinary Novices as it encompasses individuals who lack skills, knowledge, and effort in the kitchen. The second push factor was labeled Dinner Daters as it encompasses individuals who are dining out for a special occasion, with friends or family, or are out for a specific meal or craving. The first pull factor was labeled Quality Service because all loading variables related to the service received by the staff at a restaurant. The second pull factor was named Restaurant Design and all variables loading related to the ambience and design of a restaurant’s interior. The third pull factor was named Good Value because all factors loading regard overall value for the money, including pricing, portion size, and promotions and coupons. The fourth was labeled Socialization as it had to do with meeting friends and family and hearing others talk about it. Additionally, location of the restaurant fell within this factor. The fifth pull factor was named Happy Hour. This factor specifically deals with types of beverages offered and the price of alcoholic beverages. The sixth pull factor is labeled Health Grade, as it deals with the restaurant’s cleanliness and safety. Finally, the seventh factor is labeled Cuisine Craving. Attributes loading in this factor dealt with what types of food are offered and menu selection. Additionally, all involvement variables loaded into one factor labeled Involvement.
Table 4: Factor analysis of push motivators

<table>
<thead>
<tr>
<th>Factor 1: Culinary Novices</th>
<th>Factor Loading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha = .837; Variance Explained = 37.376</td>
<td></td>
</tr>
<tr>
<td>I lack knowledge of recipes</td>
<td>0.839</td>
</tr>
<tr>
<td>I do not know how to cook</td>
<td>0.814</td>
</tr>
<tr>
<td>I do not like to cook</td>
<td>0.755</td>
</tr>
<tr>
<td>Cooking is too much effort</td>
<td>0.719</td>
</tr>
<tr>
<td>I do not have the right equipment to cook with</td>
<td>0.686</td>
</tr>
<tr>
<td>I do not like washing dishes</td>
<td>0.631</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Factor 2: Dinner Daters</th>
<th>Factor Loading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha = .547; Variance Explained = 18.446</td>
<td></td>
</tr>
<tr>
<td>My friends want to go out to eat</td>
<td>0.730</td>
</tr>
<tr>
<td>There is a special occasion</td>
<td>0.661</td>
</tr>
<tr>
<td>I am craving a specific food</td>
<td>0.525</td>
</tr>
</tbody>
</table>

Note. All reported F-values of ANOVA analyses in this table are significant at p < 0.05.

* Significant at p<.05; **Significant at p<.01; NS=not significant
Table 5: Factor analysis of pull motivators

<table>
<thead>
<tr>
<th>Factor Name</th>
<th>Factor Loading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor 1: Quality Service</strong></td>
<td></td>
</tr>
<tr>
<td>Alpha = .893; variance explained = 16.185%</td>
<td></td>
</tr>
<tr>
<td>Service is consistent</td>
<td>0.877</td>
</tr>
<tr>
<td>Staff is well-trained and competent</td>
<td>0.862</td>
</tr>
<tr>
<td>Staff is prompt</td>
<td>0.804</td>
</tr>
<tr>
<td>Staff is knowledgeable</td>
<td>0.759</td>
</tr>
<tr>
<td>Service I receive</td>
<td>0.751</td>
</tr>
<tr>
<td><strong>Factor 2: Restaurant Design</strong></td>
<td></td>
</tr>
<tr>
<td>Alpha = .808; variance explained = 11.864%</td>
<td></td>
</tr>
<tr>
<td>Interior design</td>
<td>0.804</td>
</tr>
<tr>
<td>Atmosphere</td>
<td>0.763</td>
</tr>
<tr>
<td>Lighting</td>
<td>0.750</td>
</tr>
<tr>
<td>Music</td>
<td>0.729</td>
</tr>
<tr>
<td><strong>Factor 3: Good Value</strong></td>
<td></td>
</tr>
<tr>
<td>Alpha = .712; variance explained = 9.658%</td>
<td></td>
</tr>
<tr>
<td>Price of food</td>
<td>0.787</td>
</tr>
<tr>
<td>Value I receive</td>
<td>0.751</td>
</tr>
<tr>
<td>Promotions/Coupons</td>
<td>0.519</td>
</tr>
<tr>
<td>Portion size</td>
<td>0.502</td>
</tr>
<tr>
<td>Price of non-alcoholic beverages</td>
<td>0.485</td>
</tr>
<tr>
<td><strong>Factor 4: Socialization</strong></td>
<td></td>
</tr>
<tr>
<td>Alpha = .565; variance explained = 7.827%</td>
<td></td>
</tr>
<tr>
<td>Hear people talking about it</td>
<td>0.721</td>
</tr>
<tr>
<td>Friends want to go</td>
<td>0.720</td>
</tr>
<tr>
<td>Location of restaurant</td>
<td>0.623</td>
</tr>
<tr>
<td><strong>Factor 5: Happy Hour</strong></td>
<td></td>
</tr>
<tr>
<td>Alpha = .641; variance explained = 7.707%</td>
<td></td>
</tr>
<tr>
<td>Types of drinks</td>
<td>0.753</td>
</tr>
<tr>
<td>Price of alcoholic beverages</td>
<td>0.732</td>
</tr>
<tr>
<td><strong>Factor 6: Health Grade</strong></td>
<td></td>
</tr>
<tr>
<td>Alpha = .745; variance explained = 7.216%</td>
<td></td>
</tr>
<tr>
<td>Food is safe</td>
<td>0.843</td>
</tr>
<tr>
<td>Restaurant is clean</td>
<td>0.783</td>
</tr>
<tr>
<td><strong>Factor 7: Cuisine Craving</strong></td>
<td></td>
</tr>
<tr>
<td>Alpha = .068; variance explained = 4.740%</td>
<td></td>
</tr>
<tr>
<td>Food type/selection</td>
<td>0.765</td>
</tr>
<tr>
<td>Restaurant accommodates special needs</td>
<td>-0.361</td>
</tr>
</tbody>
</table>

*Note: All reported F-values of ANOVA analyses are significant at p < 0.05
Factor 7 alpha low due to only 2 factors loading
* Significant at p<.05; **Significant at p<.01 NS=not significant
**Step 3: K-means Cluster Analysis**

Cluster analysis was utilized to identify and categorize casual dining patrons on the basis of similarities in restaurant push and pull factors, involvement, and personal characteristics. Because the sample size consisted of hundreds of respondents, a k-means cluster analysis was run on the data set after factor analysis resulted in 10 usable factors for segmenting. The k-cluster analysis method is sensitive to outliers (Singh, 1990), therefore data were first examined to eliminate outliers “One of the difficulties in conducting cluster analysis is that the best way to determine the appropriate number of clusters is yet to be resolved” (Yuksel & Yuksel, 2002a). Researchers selected to cluster into three groups as suggested by Jurowski & Reich (2000). It is suggested that restaurants serve three unique markets and that it is not “economically feasible for the restaurant in question to promote to more than three market segments” (p. 69). Thus, three clusters have been chosen.

A k-means cluster analysis was run on the data set, resulting in three cluster groups. Cluster 1 contained 212 members, cluster 2 contained 196 members, and cluster 3 contained 151 members, for a total of 559 respondents. Table 6 shows the differences in factor means between groups and significance levels. All data is significant at the p< .01 level. Significant differences exist between groups in all factors.

**Step 4: Discriminant Analysis**

To test whether significant differences in push motivators, pull motivators, and involvement exist across segments, a multivariate analysis of variance was conducted using each segment as the independent variable, with the 10 factors as dependent variables. With a reported Wilkes’ lambda of .19 significant at the .000 level, overall differences between the clusters are indicated. Additionally, it is important to verify that the assumption for multivariate analysis of variance was met. Box’s M was equal to 246.877 through a test of equality of group covariance matrices (F = 2.187 with 110, 717025.764 df, p = .000), indicating equal covariance.

To double check the classification reliability, discriminant analysis was employed on the previously identified clusters to test how well the 10 identified factors predicted cluster membership. The stepwise discriminant analysis method isolated the best discriminating factors. It first selects the best discriminating factor, and then continues to pair with other determinant factors (Yoon & Schafer, 1997; Yuksel & Yuksel, 2002). The second factor was then chosen as it best improved the function’s discriminating power combined with the first function. Subsequent order was determined in the same way. The discriminant analysis revealed that the 10 factors could significantly predict group membership at p = .000, suggesting that these factors are indeed discriminating factors. Furthermore, the discriminant analysis could correctly classify 98.0% of participants into groups.

Finally, discriminant analysis was additionally used to create cluster profiles including demographic data not previously used in the clustering procedure. This information included gender, age range, education level, student status, race, and involvement level. Findings indicate that none of the demographic variables are significant discriminators. Consistent with previous findings that demographics are secondary to behavioral variables (Yuksel & Yuksel, 2002; Oh & Jeong, 1996), it may be more appropriate for marketers to develop strategies based on behavioral discriminators rather than demographic characteristics of consumer groups. Though not
### Table 6: Segment Mean Scores

<table>
<thead>
<tr>
<th># of Cluster Members</th>
<th>Push</th>
<th>Pull</th>
<th>Culinary Novices</th>
<th>Dinner Daters</th>
<th>Quality Restaurant Design</th>
<th>Good Value</th>
<th>Socialization</th>
<th>Happiness</th>
<th>Health Grade</th>
<th>Craving</th>
<th>Involve ment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cluster 1</td>
<td>21</td>
<td>0.368</td>
<td>0.0269</td>
<td>85</td>
<td>0.721</td>
<td>0.46</td>
<td>0.39</td>
<td>0.46</td>
<td>0.13</td>
<td>0.112</td>
<td>2.4783</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>0.24</td>
<td>0.46</td>
<td>27</td>
<td>0.39</td>
<td>0.46</td>
<td>0.13</td>
<td>0.112</td>
<td>2.4783</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cluster 2</td>
<td>19</td>
<td>0.137</td>
<td>-0.2841</td>
<td>91</td>
<td>0.61</td>
<td>0.11</td>
<td>0.50</td>
<td>0.40</td>
<td>0.01</td>
<td>0.188</td>
<td>1.9950</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>5</td>
<td>1</td>
<td>41</td>
<td>0.61</td>
<td>0.11</td>
<td>0.50</td>
<td>0.40</td>
<td>0.01</td>
<td>0.188</td>
<td>1.9950</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cluster 3</td>
<td>15</td>
<td>0.378</td>
<td>0.3647</td>
<td>51</td>
<td>0.265</td>
<td>0.46</td>
<td>0.75</td>
<td>0.12</td>
<td>0.11</td>
<td>0.26</td>
<td>0.430</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>8</td>
<td>0</td>
<td>09</td>
<td>0.265</td>
<td>0.46</td>
<td>0.75</td>
<td>0.12</td>
<td>0.11</td>
<td>0.26</td>
<td>0.430</td>
</tr>
</tbody>
</table>

**Results of ANOVA**

<table>
<thead>
<tr>
<th></th>
<th>F = 28.33</th>
<th>F = 73.9</th>
<th>F = 28.14</th>
<th>F = 17.653</th>
<th>F = 11</th>
<th>F = 33</th>
<th>F = 7</th>
<th>F = 21.23</th>
<th>F = 57.724</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>p&lt; .000</td>
<td>p&lt; .000</td>
<td>p&lt; .000</td>
<td>p&lt; .000</td>
<td>p&lt; .000</td>
<td>p&lt; .001</td>
<td>p&lt; .000</td>
<td>p&lt; .000</td>
<td>p&lt; .000</td>
</tr>
</tbody>
</table>
Using Factor Cluster Analysis to Segment Patrons of Casual Dining Establishments in the United States

Table 7: ANOVA & Mean scores between clusters

<table>
<thead>
<tr>
<th></th>
<th>Cluster 1</th>
<th>Cluster 2</th>
<th>Cluster 3</th>
<th>F Values</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PUSH FACTORS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Factor 1: Culinary Novices</td>
<td>F = 27.809</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I lack knowledge of Recipes</td>
<td>2.22</td>
<td>1.69</td>
<td>1.42</td>
<td></td>
</tr>
<tr>
<td>I do not know how to cook</td>
<td>2.07</td>
<td>1.43</td>
<td>1.32</td>
<td></td>
</tr>
<tr>
<td>I do not like to cook</td>
<td>2.40</td>
<td>1.95</td>
<td>1.65</td>
<td></td>
</tr>
<tr>
<td>Cooking is too much effort</td>
<td>2.84</td>
<td>2.34</td>
<td>2.23</td>
<td></td>
</tr>
<tr>
<td>I do not have the right equipment to cook with</td>
<td>2.25</td>
<td>1.60</td>
<td>1.45</td>
<td></td>
</tr>
<tr>
<td>I do not like washing dishes</td>
<td>2.91</td>
<td>2.11</td>
<td>2.14</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 2: Dinner Daters</strong></td>
<td>F = 127.175</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>My friends want to go out to eat</td>
<td>3.82</td>
<td>2.95</td>
<td>3.22</td>
<td></td>
</tr>
<tr>
<td>There is a special occasion</td>
<td>4.29</td>
<td>3.24</td>
<td>3.47</td>
<td></td>
</tr>
<tr>
<td>I am craving a specific food</td>
<td>3.68</td>
<td>2.71</td>
<td>2.78</td>
<td></td>
</tr>
<tr>
<td><strong>PULL FACTORS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Factor 1: Quality Service</td>
<td>F = 82.592</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service is consistent</td>
<td>4.48</td>
<td>3.79</td>
<td>4.52</td>
<td></td>
</tr>
<tr>
<td>Staff is well-trained and competent</td>
<td>4.47</td>
<td>3.75</td>
<td>4.47</td>
<td></td>
</tr>
<tr>
<td>Staff is prompt</td>
<td>4.55</td>
<td>3.90</td>
<td>4.49</td>
<td></td>
</tr>
<tr>
<td>Staff is knowledgeable</td>
<td>4.18</td>
<td>3.28</td>
<td>4.18</td>
<td></td>
</tr>
<tr>
<td>Service I receive</td>
<td>4.56</td>
<td>4.02</td>
<td>4.70</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 2: Restaurant Design</strong></td>
<td>F = 19.285</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interior design</td>
<td>2.75</td>
<td>2.37</td>
<td>3.01</td>
<td></td>
</tr>
<tr>
<td>Atmosphere</td>
<td>3.50</td>
<td>3.05</td>
<td>3.80</td>
<td></td>
</tr>
<tr>
<td>Lighting</td>
<td>2.97</td>
<td>2.43</td>
<td>3.00</td>
<td></td>
</tr>
<tr>
<td>Music</td>
<td>2.75</td>
<td>2.26</td>
<td>2.74</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 3: Good Value</strong></td>
<td>F = 83.154</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price of food</td>
<td>4.27</td>
<td>3.83</td>
<td>3.34</td>
<td></td>
</tr>
<tr>
<td>Value I receive</td>
<td>4.29</td>
<td>3.79</td>
<td>3.61</td>
<td></td>
</tr>
<tr>
<td>Promotions/Coupons</td>
<td>3.27</td>
<td>2.29</td>
<td>2.09</td>
<td></td>
</tr>
<tr>
<td>Portion size</td>
<td>3.60</td>
<td>2.83</td>
<td>2.80</td>
<td></td>
</tr>
<tr>
<td>Price of non-alcoholic beverages</td>
<td>2.68</td>
<td>2.01</td>
<td>1.53</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 4: Socialization</strong></td>
<td>F = 51.772</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hear people talking about it</td>
<td>3.55</td>
<td>2.44</td>
<td>3.25</td>
<td></td>
</tr>
<tr>
<td>Friends want to go</td>
<td>3.81</td>
<td>2.96</td>
<td>3.56</td>
<td></td>
</tr>
<tr>
<td>Location of restaurant</td>
<td>3.77</td>
<td>3.32</td>
<td>3.51</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 5: Happy Hour</strong></td>
<td>F = 43.603</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Types of drinks</td>
<td>3.23</td>
<td>2.15</td>
<td>2.86</td>
<td></td>
</tr>
<tr>
<td>Price of alcoholic beverages</td>
<td>3.24</td>
<td>2.11</td>
<td>2.37</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 6: Health Grade</strong></td>
<td>F = 6.815</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food is safe</td>
<td>4.65</td>
<td>4.46</td>
<td>4.26</td>
<td></td>
</tr>
<tr>
<td>Restaurant is clean</td>
<td>4.56</td>
<td>4.25</td>
<td>4.47</td>
<td></td>
</tr>
<tr>
<td><strong>Factor 7: Cuisine Craving</strong></td>
<td>F = 23.559</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food type/selection</td>
<td>4.30</td>
<td>3.96</td>
<td>4.33</td>
<td></td>
</tr>
<tr>
<td><strong>INVolvement</strong></td>
<td>F = 56.063</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low Medium High Involvement</td>
<td>2.48</td>
<td>1.99</td>
<td>2.07</td>
<td></td>
</tr>
</tbody>
</table>

All F-values significant at p < .01 indicating significant differences between clusters
identified as strong discriminators, demographic analysis is still important to visualizing group differences. An analysis of variance was subsequently performed on demographic data and factor mean scores of each cluster to determine significant differences between groups. Results of the discriminant analysis are illustrated in Table 7.

**Objective 4: To determine differences between clusters based on push/pull motivations, involvement, and demographics**

The discriminant analysis revealed significant differences across all factors, as well as all variables loading into the factors. Demographic characteristics are also significantly different across clusters. In terms of demographics, the analysis resulted in three clusters significantly different in age, gender, student-status, and education (table 8). The only demographic category in which no significant differences between groups were found was race. Additionally, factor scores were significantly different among groups for all push and pull factors, as well as involvement. Cluster 1 consists of 207 respondents, primarily female students with some college education, representing the youngest segment of the sample. This cluster expresses significantly more concern with food safety than the other segments and a higher concern for price and value. Additionally, members of cluster 1 have the highest involvement scores on average. Cluster 1 will henceforth be called *Fraternizing Kitchen Fearfuls*. Cluster 2 consists of 189 respondents who are primarily non-students, and represented the highest percentage of males. Though 41% are in the 18-25 year old category, this cluster has higher percentages of those 36 and older. Additionally, this cluster is slightly higher educated as a whole, with nearly 27% have completed a bachelor’s degree and 20% report graduate degrees. Cluster 2 expresses the highest level of concern with restaurant cleanliness and the highest interest in location of a restaurant. Cluster 2 will henceforth be referred to as *Functional Feasters*. Cluster 3 consists of 148 respondents and is significantly older than cluster 1, but not quite as old as cluster 2. Also, Cluster 3 is similar in education to Cluster 2, with higher levels of education than Cluster 1. Cluster 3 ranks highest in quality of service as well as restaurant design, and cuisine craving. Cluster 3 will further be referred to as *Foodie Fanatics*. 
Table 8: ANOVA & mean scores between clusters in terms of Demographics

<table>
<thead>
<tr>
<th>Demographics</th>
<th>Fraternizing Kitchen Fearfuls (N = 207)</th>
<th>Functional Feasters (N = 189)</th>
<th>Foodie Fanatics (N = 148)</th>
<th>F values</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>n (%)</td>
<td>n (%)</td>
<td>n (%)</td>
<td></td>
</tr>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>59 (28.9)</td>
<td>85 (43.4)</td>
<td>42 (27.5)</td>
<td>F = 6.604*</td>
</tr>
<tr>
<td>Female</td>
<td>145 (71.1)</td>
<td>111 (56.6)</td>
<td>111 (72.5)</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-25 years old</td>
<td>133 (63.6)</td>
<td>81 (41.3)</td>
<td>73 (47.7)</td>
<td>F = 9.550*</td>
</tr>
<tr>
<td>26-35 years old</td>
<td>29 (13.9)</td>
<td>39 (19.9)</td>
<td>36 (23.5)</td>
<td></td>
</tr>
<tr>
<td>36-55 years old</td>
<td>29 (13.9)</td>
<td>44 (22.4)</td>
<td>25 (16.3)</td>
<td></td>
</tr>
<tr>
<td>56+ years old</td>
<td>18 (8.6)</td>
<td>32 (16.3)</td>
<td>19 (12.4)</td>
<td></td>
</tr>
<tr>
<td>Race</td>
<td></td>
<td></td>
<td></td>
<td>F = .652(NS)</td>
</tr>
<tr>
<td>African American</td>
<td>22 (10.5)</td>
<td>16 (8.2)</td>
<td>8 (5.2)</td>
<td></td>
</tr>
<tr>
<td>Hispanic American</td>
<td>17 (8.1)</td>
<td>18 (9.2)</td>
<td>16 (10.4)</td>
<td></td>
</tr>
<tr>
<td>Caucasian/White American</td>
<td>142 (67.9)</td>
<td>139 (70.9)</td>
<td>109 (70.8)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>28 (13.4)</td>
<td>23 (11.7)</td>
<td>21 (13.6)</td>
<td></td>
</tr>
<tr>
<td>Level of Education</td>
<td></td>
<td></td>
<td></td>
<td>F = 4.717*</td>
</tr>
<tr>
<td>High school/GED</td>
<td>11 (5.3)</td>
<td>17 (8.8)</td>
<td>14 (9.2)</td>
<td></td>
</tr>
<tr>
<td>Some College/Associate Degree</td>
<td>135 (64.6)</td>
<td>85 (43.8)</td>
<td>76 (49.7)</td>
<td></td>
</tr>
<tr>
<td>Bachelor’s Degree</td>
<td>44 (21.1)</td>
<td>52 (26.8)</td>
<td>41 (26.8)</td>
<td></td>
</tr>
<tr>
<td>Post Graduate Degree</td>
<td>19 (9.1)</td>
<td>40 (20.6)</td>
<td>22 (14.4)</td>
<td></td>
</tr>
</tbody>
</table>

*Significant at p < .01
NS = Not significant

Note: Totals vary due to missing data
**Cluster 1: Fraternizing Kitchen Fearfuls**

Similar to the factor analysis, clusters were named in accordance with the dominant characteristics of which they are composed. The first cluster, named *Fraternizing Kitchen Fearfuls*, contains 207 members, representing 38.1% of the total sample population. It has high mean scores for pull factor 1: service quality, as well as pull factor 3: good value, a clue that this cluster expects a lot for what they spend. Additionally, it has the highest scores for both pull factors, indicating that this group is both inexperienced in the kitchen, and enjoys going out to socialize with others, also reflected in its score for pull factor 4: socialization. Restaurant design is unimportant to the *Fraternizing Kitchen Fearfuls*, as is menu selection, represented in pull factor 7: cuisine craving. Involvement is highest among *Fraternizing Kitchen Fearfuls*, indicating that they actively seek opportunities to dine out more so than the other two cluster segments. This is again reflected in their high scores for both push factors.

**Cluster 2: Functional Feasters**

*Functional Feasters* comprise 34.7% of the sample population, with a total of 189 respondents classified into this cluster. Looking at mean scores, this group has the lowest reported scores almost across the board, though they are more concerned with food safety than the *Foodie Fanatics* cluster. Furthermore, they express more concern for value elements than members of the *Foodie Fanatics* as well. *Functional Feasters* express the least concern for restaurant design and quality service of all three clusters. Looking at the pull factors, *Functional Feasters* again rank lowest of all three clusters on both *Culinary Novices* and *Dinner Daters*, indicating a certain level of comfort in the kitchen, and a low need for socialization over meals. This is likely due to the fact that this cluster is made up of more non-students who are dining out for convenience during or after a long work day. Additionally, as they represent the oldest cluster, they are likely to have more kitchen/cooking experience than those in the *Fraternizing Kitchen Fearfuls* and *Foodie Fanatics* clusters. Furthermore, *Functional Feasters* exhibit the lowest involvement scores of all three clusters, indicating that they may be susceptible to the choices of other members of their group and may visit restaurants due to other people’s decisions, such as to celebrate anniversaries or birthdays of friends and family members.

**Cluster 3: Foodie Fanatics**

*Foodie Fanatics* represent 27.2% of the total sample population, with 148 members. This group shows more skill in the kitchen than the *Fraternizing Kitchen Fearfuls*, as they are likely to be older students living off-campus, or recent graduates who have had to learn to cook for themselves, indicated in the demographic profile of the cluster. Interestingly, this group is least concerned with getting a good value, possibly indicating that members of this cluster are “foodies”, hence the name bestowed upon this segment. A foodie, defined by Merriam-Webster online (n.d), is “a person having an avid interest in the latest food fads”. Often foodies are more interested in the quality and uniqueness of a product to be concerned with price, thus possibly explaining the lack of concern with value among *Foodie Fanatics*. *Foodie Fanatics* also give Food type/selection the highest scores of all clusters, again indicating that they likely to fall into the ‘foodie’ category. Furthermore, as ‘foodies’ often visit hole in the walls and food trucks, it is not surprising that this group ascribes little importance to the health grade factor.

Additionally, they exhibit higher scores for push factor 2: dinner daters, suggesting that they dine out more for socialization than for convenience. Service quality scores are nearly identical to *Fraternizing Kitchen Fearfuls*, which implies that service at a casual dining restaurant is of the utmost importance to the *Foodie Fanatics*. Furthermore, this group has a
moderate involvement score, falling between *Functional Feasters* and *Fraternizing Kitchen Fearfuls*.

**CONCLUSION**

As an alternative to more commonly used segmentation types primarily based on demographic characteristics, factor-cluster analysis offers a segmentation strategy designed to subdivide marketing groups in terms of behavioral intentions. The use of factor cluster analysis allows for marketers to group diners based on behavioral intentions and motives rather than demographics, as most previous studies have done. Additionally, factor cluster analysis has advantages over segmenting consumers using the involvement construct because it takes into consideration elements other than just how engaged an individual is in the dining process. The three distinct clusters formed through the factor cluster analysis can be used by marketers to attract consumers using not only involvement levels, but also the 2 push and 7 pull factors defined through a factor analysis. Using the involvement construct to segment, like completed in the early stages of this analysis, only allows for segmentation based on one attitudinal attribute. Using factor cluster analysis offers a deeper understanding of segmentation because it considers many attitudinal attributes. The perspective derived from this method paints a deeper image of customer groups, allowing marketers to pinpoint behavioral differences and develop a marketing plan specific to the target audience.

Attracting consumers is essential to the growth and maintenance of a restaurant facility. Restaurateurs can utilize the results of this study to create marketing plans to target each of the three distinct clusters identified. For *Foodie Fanatics*, it is important to advertise the creativity among the menu as well as the aspect of socialization. For *Fraternizing Kitchen Fearfuls*, highlighting value and service quality are key to drawing in this segment, as well as advertising the socialization and happy hour aspects of the restaurant. For *Functional Feasters*, it is essential to advertise the convenience features and value aspects, such as lunch and dinner specials, and dining to go.

**Limitations**

This study took place on a college campus, and utilized a convenience sampling method. Although significant findings were identified throughout the study, limitations should be considered. Due to time limitations and access, a convenience sample was utilized, with no attempt to sample randomly. Additionally, diners of on campus restaurants may be different from off campus restaurants, both demographically and behaviorally. Further studies should attempt measuring casual dining restaurant patrons’ behaviors from multiple dining locations, as well as increasing the sample size, to increase researchers’ confidence in the findings. Additionally, this will allow for the ability to generalize findings to a wider populace.
REFERENCES


Fashion Involvement and Shopping Preferences of Generation Y

Abstract

Purpose - The purpose of this study was to examine the influence of fashion involvement on the preferred shopping channels, clothing inspiration sources, and shopping behaviours of Generation Y consumers.

Design/methodology/approach - A questionnaire regarding fashion involvement, clothing inspiration choices, and shopping preferences was distributed to 665 Generation Y students at a South-Western University in the United States.

Findings - Participants indicating higher levels of fashion involvement predictably shopped and purchased clothing for themselves most frequently. However, they also returned more garments to the store after purchase than the other two groups. Both medium and high fashion involvement groups were most inspired by clothing items found inside the stores – these groups truly like to shop in traditional bricks-and-mortar stores. High fashion involvement participants also favoured fast-fashion stores, while medium involvement participants preferred specialty stores.

Originality/value - With the plethora of inspiration choices vying for the attention of fashion leaders, this study attempts to refine the shopping preferences and practices of Generation Y – a substantial market that is unlike generations prior.

Keywords - Fashion involvement, Shopping channels, Generation Y, Retail, Merchandising, Consumer Behaviour, Marketing

Introduction

“In recent years, increased consumer independence, the large number of accepted styles at any one point of time, and the decline of clothing as a status symbol has placed the individual consumer under less pressure to conform” (Vieira, 2009, p. 179). Today, a consumer can easily purchase fashion at high end department stores and at discount stores; the rise of fast fashion has even created a new channel that delivers new trend at a low price. The internet delivers fashion trend information and shopping opportunities around the clock. The consumer behaviour shifts from “needing stuff” to “demanding stuff” and from “conformity” to “customization” have changed the retail structure to a consumer-driven marketplace (Lewis and Dart, 2010) resulting in consumers easily being drawn into the fashion of the moment (O’Cass, 2000). Even when considering fashion itself, the trend of non-trend during the past two decades has enabled a culture of acceptable self-expression through clothing like no other period in fashion history. These trends combine to create a shifting shopping paradigm that necessitates update of many of the shopping-related research findings that have been explored over the past thirty years or so.
Academia would surmise that the essential drivers of decision making would remain consistent through these market changes. For example, psychographic data that defines attitudes, interests, and opinions should remain stable even though the process of learning about and acquiring goods changes. A fashion leadership-related variable, fashion involvement, is defined as the perceived personal relevance or interest in fashion clothing (Goldsmith *et al.*, 1996). Fashion involvement is a psychographic predictive variable for an important symbolic consumption item such as fashion clothing. O’Cass (2000, 2004) has written extensively about the antecedents of fashion involvement, particularly age, gender, materialism, and fashion knowledge. Vieira (2009) built on this work and subsequently indicated the need for research regarding the consequences of fashion involvement. Therefore, the purpose of this study was to examine the influence of fashion involvement on the preferred shopping channels, inspiration sources, and shopping behaviours of Generation Y consumers.

**Fashion Involvement**

The definition of involvement and the importance of the involvement construct to product purchase is well documented in the literature (O’Cass, 2000, 2004; Kinley *et al.*, 2010; Vieira, 2009, etc.). In the consumer behaviour context, involvement is the degree to which consumers are engaged in different aspects of the consumption process as it relates to the product itself as well as marketing efforts (Broderick and Mueller, 1999). The particular aspect of fashion involvement is relevant to the body of fashion theory knowledge, as it has been linked with, among other things, shopping behaviour (Kinley *et al.*, 2010), brand status and brand attitude (O’Cass and Choy, 2008), fashion leadership (Goldsmith *et al.*, 1986), materialism (Vieira, 2009), and pre- and post-purchase satisfaction of purpose-specific apparel (Chae, Black, and Heitmeyer, 2006). Goldsmith and Flynn (2005) propose that involvement and innovativeness are more important predictors of shopping than are demographics.

Fashion clothing assists in portraying acceptable images and communicating a social identity to others (Noesjirwan and Crawford, 1982; Vieira, 2009). This is particularly important with a younger female customer who has been found to be more fashion conscious, as has been confirmed in prior research (i.e. Chowdhary, 1989; Summers, 1970; Vieira, 2009; O’Cass, 2000).

Goldsmith *et al.* (1996) and later, Michon *et al.* (2007) found a relationship between fashion involvement and fashion leadership. A fashion leader is one of the first in their group to learn about and wear a new fashion. This finding intuitively correlates with the concept that fashion knowledge, which is an antecedent of fashion involvement. Fashion opinion leaders are very aware of others and their surroundings regarding fashion merchandise and they have been found to exhibit a greater need for uniqueness than non-fashion leaders (Goldsmith and Clark, 2008), which serves to push the product trend cycle along quickly. Once fashion followers have adopted the product trend, the fashion leader will move to a new product trend and restart the cycle. Michon *et al.* (2007) also found that fashion leaders are also more prone to higher involvement cognitive processing, while fashion followers may be motivated more by mood. From a profile perspective, Summers (1970) found that wealth, education and fashion involvement were positively correlated with fashion opinion leadership. Fashion leaders have also been found to be younger, read more fashion magazines, and consider themselves more involved in fashion (Summers, 1970; Chowdhary, 1989; Gutman and Mills, 1982).
Another variable found to correlate with fashion involvement is confidence, which is theorized to increase with involvement because personal knowledge increases the trust in making the right choice (Park and Lessig, 1981; Vieira, 2009). However, Kim (2005) found that consumers who had higher apparel involvement varied in their confidence levels. The participant group indicating the most confidence did not, in fact, use apparel as a vehicle for symbolism or pleasure.

**Shopping Channels**

Store patronage is conceptually defined as the consumer’s selection of a shopping outlet (Haynes *et al*., 1994). Even during good economic times, the retail industry is a battleground competing for consumer attention and customer loyalty (Bickle, 2011). Currently, the fashion retail industry has expanded beyond the needs of consumers and too many options exist in the retail market. In many cases the need for stores has not increased, yet more retailers from all channels are entering the market (Morganosky, 1997; Clodfelter, 2003). Finding the competitive advantage to reach the target customer, particularly in a changing environment, is key to retail success. Bickle (2011) reported findings from the May 2011 BIGresearch Consumer Intention and Actions Survey that indicated only 28% of consumers surveyed shopped department stores for women’s clothing. New concepts and attention to the customer experience are essential for getting the customer into the door.

Ma and Niehm (2006) researched the service expectations among three different brick and mortar retailers, department stores, specialty stores, and discounters. This study found that, overall, older Generation Y consumers preferred first specialty stores, then department stores, and lastly discounters. The primary drivers for these format choices were clothing fit and style. Shopping channels that were not addressed included internet retailers, catalogues, and online auction, as well as other brick-and-mortar formats such as “fast fashion” stores and fashion discounters.

Goldsmith and Flynn (2005) determined that consumers adjust and adapt purchasing behaviours to new opportunities. They purchase clothing in all channels – stores, Internet, and catalogues. At the time of this study, catalogue retailers with websites were the most profitable, followed by the brick-and-mortar store with a website commerce option. In this study, the internet-only companies were the least desired. Consumers who were more highly clothing involved shopped all three channels: consumers who bought more via one channel also bought more via the other channels.

**Sources of Inspiration**

Previous research shows that with each generation group, conspicuous consumption grows (Herbig *et al*., 1993); large growth in conspicuous consumption is thought to be linked to the growth in technology and television viewership. Access to images flaunting wealth and opulence reinforce that these are desired qualities among consumers (Bakewell and Mitchell, 2003). Further, exposure to celebrities reinforces unrealistic lifestyle expectations; celebrities have the means to spend generously. Indeed, younger consumers have been found to be more likely than older consumers to gather fashion information from media sources like magazines (Bailey and Seock, 2010) associate brand names with quality, and use the Internet to their advantage to make intelligent purchase decisions. On the other hand, research has also shown that the Generation Y consumer can be very fickle and untrusting of the media (Foscht *et al*., 2009).
The influence of peers, friends and family play a role when inspiration sources and product knowledge are considered. According to Field and Wilson (2007), baby boomer parents have been eager to expose their children to the best of everything. However, Gen Y consumers continue to value the views of their peers more when making decisions as they push toward greater independence by increasingly using their purchases to aid in expressing their individuality. Indeed, Kinley et al. (2010) found that female friends, female family members, and female co-workers were particularly influential resources for high clothing involvement Generation Y consumers. Haytko et al. (2009) proposed that products and brands are used to help college-aged consumers figure out who they are and that the influences of friends will like never cease to exist.

Product knowledge for fashion encompasses a familiarity with brands, product use in terms of context, frequency of use, and experience with fashion clothing. “Knowledge can come from product experiences, ad exposure, interactions with salespeople, friends, or the media, previous decision-making or previous consumption and usage experiences held in memory” (O’Cass, 2004, p. 872). Thus product knowledge affects involvement, because perception of knowledge is linked to confidence in judgment concerning that product (O’Cass, 2004; Vieira, 2009). It might be hypothesized that consumers acquire this knowledge from a variety of sources which may include friends, authoritative sources (fashion writers and editors), and promotional materials (advertisements). The use of inspiration sources has been studied (Kinley et al., 2010), but not in the context of shopping channel preference and fashion involvement.

**Shopping Behaviours**

Consumers use clothing as a means to express self-image and there is pleasure in shopping for clothing (Michaelidou and Dibb, 2006; Park et al., 2006). Consumers with high clothing involvement have been found to enjoy shopping more, purchase clothing more impulsively, spend more money on clothing, spend more time shopping, and be more aware of brands than consumer with low clothing involvement (Shim and Kotsiopulos, 1992; Park et al., 2006; Kinley et al., 2010; Vieira, 2009).

**The Generation Y Consumer**

Generation Y consists 113 million consumers who were predicted to spend $629 billion in 2010 (Dardashti, 2010), and is predicted to have greater buying power than the larger baby boomer generation by 2015 (Dardashti, 2010). When they are not studying or working they are seeking other entertainment which they can find through purchasing goods and shopping (Bakewell and Mitchell, 2003). Therefore, it is becoming very important to attract these young consumers born between 1977 and 1994 (Foscht et al., 2009). Given that this demographic has significant buying power and has been exposed to shopping at a much younger age than any previous generation (Bakewell and Mitchell, 2003), it is important to attract their attention and marketing strategy must be adapted as they move through important life stages. The key to capturing Gen Y consumers is to capture the fashion opinion leaders in this group. Previous research has found a positive correlation between consumer apparel spending and opinion leadership (Goldsmith, 2000).

Generation Y consumers are more difficult for retailers to understand than previous generations; this group is described as free spending but hard to reach (Martin and Turley, 2004). While Generation Y consumers are spending billions of dollars each year, a large percentage of it on clothing; they are not thought to be easily influenced by media (Bakewell and Mitchell, 2003); their shopping decisions tend to be influenced by their friends (Beaudoin
and Lachance, 2006; Kinley et al., 2010), and they tend to be brand knowledgeable and brand loyal (Holtzhausen and Strydom, 2006).

Need for Research
Though fashion leadership has been a variable for several studies, changes have occurred roughly every ten years. Much of the research involving fashion leadership was collected during the 1980’s and early 1990’s. Since that time, socioeconomic and demographic factors have changed the way consumers shop and shopping channels have evolved to better serve the time-starved consumer. Consumers are no longer limited by their geographical location and can access the internet to make purchases or spot new trends and share opinions on blogs and social networking sites. Further there are more retailers in the market than needed to satisfy the needs and wants of consumers (Morganosky, 1997). Competition between retailers is very strong and in many cases multi-channel chain stores are often cannibalizing their own sales (Clodfelter, 2003). This has caused many multi-channel chain stores to close underperforming stores to ease competition in their own markets (Odell, 2010). This eases cannibalism among the retailers’ own sales, but does nothing to capture sales from other retailers and other shopping channels. The current economic climate has lowered retail sales among many retailers, creating a new awareness of the increased competition.

Objectives
This study aims to discover how fashion involvement among Generation Y consumers affects apparel related shopping behaviours. By definition, fashion opinion leaders would be high fashion involvement consumers who obtain information about fashion products through media and peers, which would lead to purchasing fashion products. The intended outcome of this research is to determine where members of Generation Y obtain inspiration, what shopping channels they frequent, and how they shop when they purchase fashion products. The objectives of this study were to examine:

1. The effect of fashion involvement on preferred shopping channels
2. The effect of fashion involvement on sources of inspiration for clothing purchase
3. Fashion involvement and shopping behaviours (frequency of shopping, frequency of purchase, amount of apparel returns, reason for apparel return, and shopping motivations).

Method
A written survey was administered to a convenience sample of Generation Y undergraduate students enrolled in variety of classes in at a south-western university in the U.S. This consumer group was selected for the study because younger consumers have been found to have generally higher levels of fashion involvement (O’Cass, 2000) and they are engaged in a highly social stage of life wherein the symbolic consumption of clothing is of high importance.

The questionnaire employed the 6-item fashion involvement scale developed by Tigert et al. (1976). Sample statements included: “It is important to me that my clothes are of the latest style” and “When I must choose between the two, I usually dress for fashion, not for comfort.”

Participants were asked which shopping channels were used to make clothing purchases. There were nine channels identified for participants to rate including department stores, specialty stores, “fast fashion” stores, fashion discounters, discount stores, catalogues, internet retailers, online auction sites, and thrift stores. In some cases examples were given
for each type of shopping channel so that participants would not be confused by the classifications.

Next, participants were asked to identify where they get ideas for the clothing they purchase for themselves and how often they make clothing purchases inspired by eighteen different idea sources. Some of the idea sources included fashion and non-fashion magazines, store displays, television programs, fashion shows, Internet store sites, and celebrities. Similarly, participants were asked how often they purchase clothing based on what they saw. All of these scales were operationalized using a 5-point Likert scale varying from “Never” to “Always.”

To determine shopping behaviours, participants were asked: how often they purchased clothing for themselves, what motivates them to go shopping, how often they went shopping, how often have they returned clothing in the past three months, and the primary reason for returning clothing.

Results

A total of 665 usable surveys were collected. Most of the participants were female (75%) and Caucasian (67.1%) with a mean age of 22. Most of the sample consisted of merchandising (52.4%), hospitality management (12.0%), and business (27.5%) majors. The decision to survey these majors was intentional, as some merchandising students would logically have a tendency to be fashion opinion leaders. The sample consisted primarily of juniors (45.8%) and seniors (37.0%) who were employed part-time (59.0%).

4.1 Effect of Fashion Involvement on Preferred Shopping Channels

In order to address the objectives, the participants were categorized according to their responses on the fashion involvement scale using K-Means Cluster Analysis. A three-cluster solution was determined appropriate. Analysis of the means indicated the three groups were sufficiently different for the purpose of categorizing them based on fashion involvement. The three-cluster solution was validated further for external heterogeneity using ANOVA, which revealed significant differences among the three clusters on each of the items in the fashion involvement scale. The cluster groups were labelled high (n=240, 36.7%), medium (n=232, 25.5%), and low (n=182, 27.8%) fashion involvement. The high fashion involvement group included the greatest number of females, African-Americans, Asians, merchandising majors, and had the greatest number of participants who were employed part-time. The low fashion involvement group had the greatest number of males, and hospitality management and business majors. The greatest number of Caucasian participants fell into the medium involvement group.

When the study participants were asked how often they purchase clothing from particular retail channels, the most popular choice for the group was specialty stores followed by fast-fashion stores and department stores. The least used channels were auction sites, catalogues and vintage or thrift stores (Table 1). The high involvement group indicated purchasing in each of the channels more frequently than did the other two groups.

ANOVA was computed to determine the effect of fashion involvement on preference for retail channel. There were significant differences between the three groups for six of the nine
channels listed (p<.05). The high fashion involvement shopper preferred the fast fashion stores more than any other channel – and more than the other two involvement groups (M=4.02, p<.0001). The high involvement group also preferred specialty stores (M=3.60), department stores (M=3.32), fashion discounters (M=2.84), and internet retailers (M=2.68) more often than did the low involvement group. While none of the groups indicated shopping in catalogues frequently, the low fashion involvement group indicated they did so significantly less (M=1.50) than the other two groups. The medium involvement group differed significantly from the high involvement group on only one variable, fast fashion stores, and differed significantly from the low involvement group only on frequency of shopping in the fast fashion and catalogue channels.

**Effect of Fashion Involvement on Inspiration for Clothing Purchase**

In order to make the data more meaningful, a principle components factor analysis with varimax rotation was conducted on the 18 idea sources. An Eigenvalue of one and items loading above .50 on a factor yielded five inspiration factors, which were labelled: fashion sources inspired, traditional advertising inspired, multimedia inspired, retail inspired, and clicks and catalogue (Table 2).

ANOVA indicated significant differences among the different involvement groups on each of the idea source factors (p<.0001), as indicated in Table 2. Not surprisingly, the high fashion involvement group indicated they get inspiration for clothing purchase from each of the sources more than the other groups and the low involvement group was the least inspired by each source. All three groups indicated using the retail inspired sources most often, with the high (M=4.03) and medium involvement (M=3.91) groups doing so significantly more often than the low fashion involvement group (M=3.51). The three groups differed significantly from each other on their use of fashion sources, multimedia sources, and clicks and catalogue sources.

**Fashion Involvement and Shopping Behaviours**

Participants indicated how often they shop for clothing for themselves (“more than once per month,” “about once per month,” or “four to six times per year.” The frequency of shopping was affected by fashion involvement ($X^2=150.203, df=4, p<0.001$). Predictably, high fashion involvement participants shopped more often than did low fashion involvement participants (Table 3).

Since many shopping trips do not result in purchase, the participants were also asked how often they purchase clothing for themselves when they go shopping. The high (59.1%) and medium (50.6%) fashion involvement participants indicated they purchase clothing most of the time when they go shopping, while most of the low fashion involvement participants indicated they sometimes purchase clothing for themselves (43.4%). Only one high involvement participant indicated they “rarely or almost never” purchase clothing for themselves when they go shopping ($X^2=102.431, df=4, p<0.001$).

When the participants were asked how many garments they returned to the store for refund or exchange within the past three months, level of fashion involvement again indicated significant differences ($X^2=18.470, df=4, p<0.01$). Chi Square indicated two interesting differences: the greatest number of low involvement participants (51.3%) indicated they did not return any garments to the store for refund or exchange, while the greatest number of high
Involvement participants (59.1%) indicated they returned between one and five garments for refund or exchange. When they were asked why they made the returns, seven answer choices were provided. Since Chi Square analysis compares expected frequencies against actual frequencies, two of the reasons were eliminated from analysis: “Other” and “Not Applicable – I never return clothes to the store.” While the most popular reason for returns were poor fit and not trying the garment on prior to leaving the store (which may have confounded the poor fit response), the differences were not significant between the groups.

Finally, participants were asked what motivates them to shop for clothing for themselves. Since participants were instructed to indicate all answer choices that applied, only descriptive statistics are reported in this study. “Wanting something new” was the most popular response for all three groups. The least cited reason for the high and medium fashion involvement groups was that their size had changed; the least cited reason for the low fashion involvement group was that they wanted to “keep up with new styles.”

Conclusions

This study was conducted in order to better understand fashion involvement as it relates to shopping related behaviours of an influential market – Generation Y. Much has been written about this demographic group, as it differs on many psychographic factors from generations prior and has thus had a profound impact on retail channel and distribution management. Of particular interest is their use of technology for inspiration, product research, social networking and product purchase.

Given the popular press definition of Generation Y, it is surprising that the participants in the present study did not indicate shopping online or using online resources for inspiration for product purchase more frequently. There were significant differences between the three involvement groups with regard to using multimedia inspired sources for ideas, but the means for these resources were mediocre. Participants also ranked shopping online below shopping in discount stores for clothing; this particular subject group still preferred to shop in brick-and-mortar stores.

While fashion involvement made a significant difference in where Gen Y wants to shop for clothing, the difference is not huge. All groups preferred specialty and fast fashion stores overall; all groups least preferred thrift/vintage shops, catalogues, and online auction sites. Generation Y is not particularly interested in buying used clothing or clothing they cannot see and feel. The preferred store formats are also found in shopping centres, generally, which may indicate a strong social motive for shopping for clothing. The data supports previous indicators that the specialty store format remains the format of choice for Gen Y consumers (Ma and Niehm, 2006; Martin and Turley, 2004).

“Fast fashion” retailers (Forever 21, Zara, H&M) have emerged in recent years and have rapidly grown in popularity with the Gen Y market (Forever 21, 2010). The retail store, Zara for example, has the ability to produce products and get them on the sales floor in less than 30 days – a timeline that is not possible for traditional retail formats (Lopez and Fan, 2009). Products sold in fast fashion stores are also produced in smaller quantities, making scarcity a contributor to increased demand. High fashion involvement consumers are interested in fast
fashion retailers because of their ability to produce products quickly and thus offer current trends at a quicker pace than traditional retailers (Ferdows et al., 2004). High fashion involvement consumers are likely to enjoy the availability of new fashion products and the rarity of items to differentiate themselves as fashion leader, as fashion opinion leaders have a need for uniqueness, (Goldsmith and Clark, 2008). Similarly, specialty stores ranked second among high fashion involvement participants, likely because they cater specifically to niche markets.

Goldsmith et al. (1991) proposed that fashion leaders should spend more money on fashion, read fashion magazines, shop more frequently, and purchase new items more often than non-leaders. If the logic follows that people with a high fashion involvement are or aspire to be fashion leaders, that theory holds true in the present study where high fashion involvement participants did indeed indicate they shop significantly more often and purchase clothing for themselves more often when they went shopping. They were also engaged with fashion-inspired sources of information more frequently than their cohorts. They indicated they get ideas for clothing to purchase from fashion and non-fashion magazines, fashion- and non-fashion-related television, fashion shows and celebrities. While participants in the present study did not indicate using online resources for fashion inspiration as often as current culture might suggest, it is hypothesized that as the Internet becomes more pervasive in our lives this outcome will change. Since data were collected for the present study, the use of Smartphones and the iPad have become increasingly more popular, changing the paradigm of available perusing choices.

With regard to specific shopping behaviours, frequency of item return was very interesting. The high fashion involvement group indicated they generally return between one and five garments for refund or exchange, while the low involvement group indicated they do not generally return garments to the store. The most popular reason for return was poor fit. This finding indicates that either low fashion involvement participants were not as interested in a well-fitting garment (i.e., they are more flexible about their definition of what “fits”) or that they made more informed choices before reaching the checkout counter.

In summary, it is not a surprise that level of fashion involvement has an impact on shopping behaviours. This study builds on previous research in that it underscores the importance of retail innovation, particularly with fast fashion. There is a sizable market of consumers who are not interested in classic or low-risk fashion. Retail, in general, reacts to economic trends by limiting risk exposure in fashion-forward inventory when economic indicators become negative. This is probably a strong driver in the demise of the traditional American department store – a channel the younger consumer is generally uninterested in shopping judging by the data in the present study.

Limitations and Need for Further Study
This study is limited to a convenience sample of a single south-western university student sample and data analysis indicated an unbalanced sample in fashion involvement categories, even though the participant pool was intentionally selected in attempt to overcome this limitation.

The issue of garment return needs to be better explored. The researchers hypothesize that the high fashion involvement consumer may be less decisive with regard to garments they
actually desire to keep in their wardrobes. The law of diminishing returns or impact of tendency to impulse purchase may be part of the reason for frequent returns.

References


### Table 1. Preferred Shopping Channel According to Fashion Involvement

<table>
<thead>
<tr>
<th>Channel</th>
<th>Overall Mean</th>
<th>Low Mean</th>
<th>Medium Mean</th>
<th>High Mean</th>
<th>F</th>
<th>p&lt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialty Stores</td>
<td>3.48</td>
<td>3.29</td>
<td>3.50</td>
<td>3.60</td>
<td>3.52</td>
<td>.030</td>
</tr>
<tr>
<td>“Fast Fashion” Stores</td>
<td>3.31</td>
<td>2.26</td>
<td>3.40</td>
<td>4.02</td>
<td>93.36</td>
<td>.000</td>
</tr>
<tr>
<td>Department Stores</td>
<td>3.16</td>
<td>2.97</td>
<td>3.15</td>
<td>3.32</td>
<td>5.027</td>
<td>.007</td>
</tr>
<tr>
<td>Fashion Discounters</td>
<td>2.66</td>
<td>2.46</td>
<td>2.63</td>
<td>2.84</td>
<td>4.590</td>
<td>.010</td>
</tr>
<tr>
<td>Discount Stores</td>
<td>2.48</td>
<td>2.58</td>
<td>2.42</td>
<td>2.46</td>
<td>.953</td>
<td>.386</td>
</tr>
<tr>
<td>Internet Retailers</td>
<td>2.44</td>
<td>2.13</td>
<td>2.44</td>
<td>2.68</td>
<td>8.803</td>
<td>.000</td>
</tr>
<tr>
<td>Thrift/Vintage Retailers</td>
<td>1.94</td>
<td>1.86</td>
<td>1.96</td>
<td>1.98</td>
<td>.556</td>
<td>.574</td>
</tr>
<tr>
<td>Catalogues</td>
<td>1.72</td>
<td>1.50</td>
<td>1.86</td>
<td>1.76</td>
<td>6.347</td>
<td>.002</td>
</tr>
<tr>
<td>Online auction sites</td>
<td>1.47</td>
<td>1.42</td>
<td>1.51</td>
<td>1.47</td>
<td>.522</td>
<td>.594</td>
</tr>
</tbody>
</table>

Note. Means sharing a common subscript are not significantly different by the Scheffe* test.

1Note. Responses were measured on a scale where 1=Never and 5=Always
Table 2. Inspiration Factors and Fashion Involvement

<table>
<thead>
<tr>
<th>Inspiration Factors</th>
<th>Factor Loading</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
<th>F-statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Factor 1: Fashion Sources Inspired</strong></td>
<td>1.88&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2.74&lt;sup&gt;b&lt;/sup&gt;</td>
<td>3.36&lt;sup&gt;c&lt;/sup&gt;</td>
<td>172.264*</td>
<td></td>
</tr>
<tr>
<td>α=0.856; Eigenvalue=3.656;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variance=20.31%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fashion magazines</td>
<td>.829</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Celebrities</td>
<td>.803</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Fashion shows</td>
<td>.743</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Fashion TV</td>
<td>.683</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-fashion magazine</td>
<td>.608</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TV program</td>
<td>.546</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Factor 2: Traditional Advertising Inspired</strong></td>
<td>1.89&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2.21&lt;sup&gt;b&lt;/sup&gt;</td>
<td>2.41&lt;sup&gt;b&lt;/sup&gt;</td>
<td>19.059*</td>
<td></td>
</tr>
<tr>
<td>α=0.730; Eigenvalue=2.389;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variance=13.27%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Billboard</td>
<td>.762</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Newspaper ad</td>
<td>.713</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>TV ad</td>
<td>.713</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Factor 3: Multimedia Inspired</strong></td>
<td>1.60&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2.02&lt;sup&gt;b&lt;/sup&gt;</td>
<td>2.31&lt;sup&gt;c&lt;/sup&gt;</td>
<td>45.587*</td>
<td></td>
</tr>
<tr>
<td>α=0.692; Eigenvalue=2.126;</td>
<td></td>
<td></td>
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<tr>
<td>Variance=11.81%</td>
<td></td>
<td></td>
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<tr>
<td>Social networking sites</td>
<td>.746</td>
<td></td>
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<tr>
<td>Internet ads</td>
<td>.662</td>
<td></td>
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<tr>
<td>TV shopping network</td>
<td>.577</td>
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<td>Music video</td>
<td>.510</td>
<td></td>
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<tr>
<td><strong>Factor 4: Retail Inspired</strong></td>
<td>3.51&lt;sup&gt;a&lt;/sup&gt;</td>
<td>3.91&lt;sup&gt;b&lt;/sup&gt;</td>
<td>4.03&lt;sup&gt;b&lt;/sup&gt;</td>
<td>23.554*</td>
<td></td>
</tr>
<tr>
<td>α=0.627; Eigenvalue=1.949;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Variance=10.83%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Store shopping</td>
<td>.753</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Observing others</td>
<td>.681</td>
<td></td>
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<td></td>
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<tr>
<td>Store display</td>
<td>.637</td>
<td></td>
<td></td>
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<tr>
<td><strong>Factor 5: Clicks and Catalogue</strong></td>
<td>2.32&lt;sup&gt;a&lt;/sup&gt;</td>
<td>3.02&lt;sup&gt;b&lt;/sup&gt;</td>
<td>3.38&lt;sup&gt;c&lt;/sup&gt;</td>
<td>62.815*</td>
<td></td>
</tr>
<tr>
<td>α=0.597; Eigenvalue=1.462;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variance=8.12%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Internet store site</td>
<td>.730</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Catalogue</td>
<td>.602</td>
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Note. Means sharing a common subscript are not significantly different by the Scheffe’ test. Note. *p<.0001
Table 3. Fashion Involvement and Shopping Behaviours

<table>
<thead>
<tr>
<th></th>
<th>High Fashion Involvement</th>
<th>Medium Fashion Involvement</th>
<th>Low Fashion Involvement</th>
<th>X²</th>
<th>p&lt;</th>
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<tbody>
<tr>
<td><strong>Shopping Frequency</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>More than Once/Month</td>
<td>73.3%</td>
<td>48.9%</td>
<td>17.6%</td>
<td>150.20</td>
<td>.000</td>
</tr>
<tr>
<td>About Once/Month</td>
<td>16.7%</td>
<td>26.4%</td>
<td>26.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>About 4-6 Times/Year</td>
<td>10.0%</td>
<td>24.7%</td>
<td>55.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Purchase Frequency</strong></td>
<td></td>
<td></td>
<td></td>
<td>102.43</td>
<td>.000</td>
</tr>
<tr>
<td>Every Time</td>
<td>27.4%</td>
<td>21.2%</td>
<td>13.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Most Of The Time</td>
<td>59.1%</td>
<td>50.6%</td>
<td>29.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sometimes</td>
<td>13.1%</td>
<td>23.4%</td>
<td>43.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rarely/ Almost Never</td>
<td>0.4%</td>
<td>4.8%</td>
<td>14.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of Garments Returned to Store in Past 3 Months</strong></td>
<td></td>
<td></td>
<td></td>
<td>18.470</td>
<td>.01</td>
</tr>
<tr>
<td>None</td>
<td>33.6%</td>
<td>46.0%</td>
<td>51.3%</td>
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<tr>
<td>1-5</td>
<td>59.1%</td>
<td>47.3%</td>
<td>42.5%</td>
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</tr>
<tr>
<td>6-10</td>
<td>6.0%</td>
<td>4.4%</td>
<td>2.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11-15</td>
<td>1.3%</td>
<td>2.2%</td>
<td>1.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Reason for Returns</strong></td>
<td></td>
<td></td>
<td></td>
<td>13.451</td>
<td>N/S</td>
</tr>
<tr>
<td>Poor Fit</td>
<td>38.8%</td>
<td>37.1%</td>
<td>50.4%</td>
<td></td>
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</tr>
<tr>
<td>Didn’t go with present wardrobe</td>
<td>9.0%</td>
<td>4.2%</td>
<td>5.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wrong style for body type</td>
<td>12.2%</td>
<td>16.8%</td>
<td>10.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Did not try on first</td>
<td>38.3%</td>
<td>41.9%</td>
<td>33.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Negative reaction from Others</td>
<td>1.6%</td>
<td>0.0%</td>
<td>0.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Shopping Motivation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Occasion</td>
<td>60.8%</td>
<td>50.0%</td>
<td>44.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change of Season</td>
<td>53.8%</td>
<td>45.7%</td>
<td>37.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Take Advantage of Sales</td>
<td>54.2%</td>
<td>45.7%</td>
<td>47.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size Has Changed</td>
<td>11.7%</td>
<td>19.0%</td>
<td>24.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Want Something New</td>
<td>81.3%</td>
<td>79.3%</td>
<td>68.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Keep Up W/ New Styles</td>
<td>52.9%</td>
<td>30.7%</td>
<td>7.7%</td>
<td></td>
<td></td>
</tr>
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</table>

1Note. Only descriptive data presented since participants could select multiple answer choices.
Using The Involvement Construct To Understand The Impact Of Bollywood On The Activities And Behaviors Of Indian Tourists: An Empirical Study

Abstract

The aim of this study is to determine the impact of Bollywood movies and television programing on the travel behaviors of Indian tourists. 670 usable surveys were gathered through a convenience sampling method and analyzed using SPSS. The involvement construct was utilized to segment respondents into three significantly different groups both demographically and attitudinally. Additionally, Correlations, ANOVA, and Crosstabs were used to analyze data. Findings indicate strong levels of engagement and eagerness among Indian movie and television viewers, particularly among Indians highly involved with foreign travel. Additionally, highly involved Indians were more likely to participate in tourist activities at destinations shown in Bollywood movies and television programs, especially visiting a specific film location, shopping at places seen in films or television programs, and visiting festivals, fairs, and events seen in movies. Finally, results indicate that highly involved individuals use movies and television as motivation to travel more frequently than those who are less involved.

Keywords: Bollywood Movies, India, Film-Induced Tourism, Travel Motivations, Involvement, Consumer Behavior.

INTRODUCTION

Motion pictures have been captivating audiences since 1895 when the Lumiere brothers first introduced the world to films (Bolan, Boy, & Bell, 2011). “While not produced with the prime intent of inducing people to visit destinations as tourists, [films have the tendency to] enhance the awareness, appeal and profitability of locations through the power of imagery and fantasy of story that they portray” (p.102). In 2012, the Indian film industry celebrated 100 years of cinema. Producing over 1,000 movies annually, India has one of the largest film industries in the world, grossing $72 billion (Desai, 2005; Lovgren, 2004; Minocha & Stonehouse, 2006). In fact, Bollywood is currently ranked as the largest movie industry in the
world in respect to employee count and number of films produced (Dwyer, 2006). India’s film industry is primarily based in Mumbai (formerly Bombay) and is commonly called Bollywood, derived from the fusion of Bombay (now Mumbai) and Hollywood. Bollywood movies cover every genre of entertainment, ranging from romances peppered with song and dance in exotic locations, to gritty underworld films, to coming of age dramas of those in their 20’s (Shukla, 2012). A shift in thematic styling occurring nearly 30 years ago has drastically improved film quality, and most films now have one or more scenes shot in exotic locations and foreign countries, providing a dream-like experience for the viewers, with actors donning fancy clothing and modern technological devices (Kaur, 2002).

Since the 1980s, the Indian economy has seen an acceleration of economic growth (Patnaik, 2011). The Indian economy has been growing at around 8% for the past half-decade, which makes it the “fourth-largest economy in terms of purchasing power” (Ratanpal, 2008, p. 353). In 2005, discretionary spending rose to 52%, up from 32% in 1985 (Milmo, 2007). “With India's middle class estimated at between 300 million and 400 million people, the movement from traditional rural-poor to young urban workers in a country of 1.1 billion may be the largest class shift the world has ever seen. The burgeoning middle class is the engine driving its booming economy, which the International Monetary Fund predicts by 2050 will be larger than that of the United States” (Rempel, 2007, p. k06). This Indian consumer segment is well educated and many can have a working knowledge of the English language, and thus foreign travel is more feasible than in past years (Siri, Kennon, Josiam, & Spears, 2012; ITB Berlin, 2007). Even a relatively small segment (20%) of the Indian population can still add up to a market of 200 million (Ahmed & Josiam, 1996). With a growing middle-class and formidable purchasing power, outbound travel from India has been increasing at a dramatic rate over the past decade. The number of outbound Indian nationals nearly doubled from 2005 to 2011, with higher rates of travel to the UK, Italy, and Switzerland than any other European countries (Market Research Division, Ministry of Tourism, 2011).

In previous years (till the early 1990’s), outbound travel from India was limited and few Indians had the monetary resources to travel abroad as tourists. Thus, Bollywood movies brought the world to Indian viewers. However, that was a dream world populated with movie stars. With a shift in policies brought on by the liberalization of the Indian economy during the 1980s, more and more Indians now have the income and ability to travel abroad to the places that they could only fantasize about after seeing Bollywood movies.

Film tourism, as stated by Hudson & Ritchie (2006), is a growing worldwide phenomenon powered by both international travel increases and the growth of the entertainment industry. Several previous studies have noted that movies can create motivation to travel in viewers, and places shown in films often impact destination choices when selecting where to travel (Bandyopadhyay, 2008; Young & Young, 2008). Furthermore, travel from India has dramatically increased as a result of the liberalization of the Indian economy. With millions of Indians travelling worldwide, the global impact of Indian travel and tourism is quite significant. Films work as a channel for marketing, including for destination travel. Many foreign destinations invite Bollywood producers for filming, allowing different countries to project their unique image to a growing market. If research on film induced tourism is not focused on, there will continue to be an inadequate appreciation of it and its potential to grow as a tourist product may not be fully understood in many destinations, causing lost opportunities for tourist destinations to build up their appealing pull factors (O’Connor, 2010).
Because of the liberalization of the Indian economy, a massive surge has occurred in the Indian middle class, creating an affluent group of well-educated consumers with disposable income in which they can spend on foreign travel, unlike generations before. Many surveys have been conducted to study the impact of Hollywood movies/TV on travel and tourism, but no research has been carried out to study the influence of Bollywood movies on travel and tourism. It is important for researchers to investigate this relationship between tourism and Bollywood movie viewing. The purpose of this study is to address these gaps in the literature.

**Objectives**

The objectives of this paper are:
- To determine the demographic profile of Indians who watch Bollywood movies.
- To determine the level of involvement that Indians have with foreign travel.
- To determine the level of engagement and eagerness that Indians have with Hollywood movies and TV programs in terms of involvement.
- To examine the relationship between involvement with foreign travel and Bollywood film and television viewing.
- To determine the propensity among Indians to participate in activities at destinations shown in Bollywood movies and TV programs.
- To determine the motivations among Indians to visit destinations shown in Bollywood movies and TV programs.

**LITERATURE REVIEW**

*Film-Induced Tourism*

Film-induced tourism refers to visitation to sites where movies and TV programs have been filmed as well as tours of production studios, including film-related theme parks (Hahm & Wang, 2011). Most tourism oriented literature focusing on film-induced tourism consists of unsubstantiated claims of the importance of film-induced tourism on economic growth (O’Connor, Flanagan, & Gilbert, 2008). The concept of media induced travel through movies and television programming is a relatively new occurrence. Though some studies suggest that film-induced tourism has been around since the 1970’s, it is still not widely studied or well recognized around the world. Tourist destinations can be affected by numerous factors, including advertisements through the mass media, airline and travel agency promotions, and travel experiences of peers (Lin & Huang, 2008). Studies previously conducted indicate that people travel to see historical places or places made famous by literature (Bachmann, 2006; Jewell & McKinnon, 2008; O’Connor et al, 2008). Technological advancements have caused the replacement of novels with movies, which in turn increases audience motivation to levels higher than any other media source.

Gjorgievski & Trpkova (2012) note that the tourism and film industries have similar goals: to transport consumers to a new world, in which they can experience new things and enjoy a break from the monotonies of life. Though these goals are accomplished in two different ways, the latest trend in research is to merge these two sectors together. “Film-induced tourism is partially based on tourist demands to escape reality to a better world represented in films” (O’Connor et al., 2008). Some movies, though not produced with the intention to do so, have impacted tourist trends. Notable examples include the Lord of the Rings trilogy filmed in New Zealand and the Twilight Movies in Forks, Washington. Film-induced tourism can be broken into three distinct categories (Riley, Baker, & Van Doren, 1998; Butler, 2011; Alderman, Benjamin, & Schneider, 2012): people visiting locations where the movie was...
Using The Involvement Construct To Understand The Impact Of Bollywood On The Activities And Behaviors Of Indian Tourists: An Empirical Study

filmed, people visiting the locations represented in the storyline of a production, and people visiting places that simulate what is viewed in movies or on television.

Additionally, researchers have found that films can play an essential part in the selection of destinations (Gammack, 2005; Jewell & McKinnon, 2008; Shani, Wang, Hudson, & Gil, 2008). Butler (1990) predicted that the importance of film and television would increase as a means of gaining information about destinations. At the same time, Urry (1990) implied that tourist chose destinations to explore and look at because of feelings generated through activities that are non-tourist centered, such as television and film viewing. The events, landscapes, and cultures portrayed in a film can be a major factor in tourism communication (Crouch, 2007). Thus, movies not only affect individual decision’s regarding travel destinations but also the tourism industry as a whole. Global evidence confirms the influence film and television have on tourism demand in spotlighting tourist destinations; thus, the influx of tourist from film-induced tourism cause invasions in which destinations must then accommodate (O’Connor et al., 2008). Therefore, it is important for tourist marketers to carefully select movie scripts to best portray the exact destination image.

Films as Travel Motivation
Mestre, Rey, and Stanishevski (2008) noted that molding an image that accurately portrays reality, is attractive enough to become the subject matter of tourist, and subsequently results in a tourist destination. Furthermore, while watching a movie, most viewers tend to accept the fictional story as reality (Mestre et al., 2008). Hudson and Ritchie (2006) indicated that 8 of 10 residents of the United Kingdom remarked in a 2004 survey that they got the idea for their vacation destination through movies, and 1 in 5 is planning a trip to the location their favorite movie was filmed. “The estimated financial value of movie-induced tourism in United Kingdom alone is about 1.6 billion pounds” (Suni & Komppula, 2012). Though no established methods yet exist to measure film-induced tourism, film influences on tourism are evident in the increase in visitor numbers after a movie has been released (Singh & Best, 2004). Their study followed the film-induced tourism prompted by the release of the Lord of the Rings trilogy. The authors found that the main motivation to visit Hobbiton (movie set/backdrop) was to experience the natural scenery of that place. This indicated that travelers motivated by a movie expect to see the views/sceneries as shown in the movie. After the release of the Lord of the Rings trilogy, marketing material produced by Tourism New Zealand was created connecting locations from the films to the scenery of New Zealand (Croy, 2004; Suni & Komppula, 2012), displaying a documented effect on how movies can impact tourism.

Other movies have had similar effects as Lord of the Rings had on New Zealand. VisitBritain (2006) estimated that around one in five of Britain’s international visitors are inspired to visit the United Kingdom by the images they see in movies or on television. It is envisaged that the promotion of the Harry Potter sites will increase visits to Britain and raise the value of the £74 billion visitor economy (p.159). Furthermore, Slum dog Millionaire, a 2008 film by British Danny Boyle, brought Indian slums to the minds of millions worldwide. After the success of the film, “Indian slums began to appeal more visibly to consumers as new exotic tourist destinations, away from well-trodden road of so-called conventional tourism” (Mendes, 2010). Tours began popping up across India to allow tourists to explore shanty towns like those seen on screen.

Bollywood & Travel Motivations
In the 1960’s, many major Bollywood blockbusters were filmed abroad, including *Sangam*, *Love in Tokyo, An Evening in Paris, Night in London, Around the World*, and *Spy in Rome* (Miglani, 2006). During this era, the most common location for filming was Kashmir (in India), but political unrest forced Bollywood directors to head to foreign locations, especially locations within Europe. Today, nearly all Bollywood movie or song sequences are filmed abroad, with filmmakers believing that scenic foreign landscapes contribute to the success of the film. Some of the biggest blockbusters of Bollywood impacting viewers are *Silsila*, *Chandani, Lamhe, Dilwale Dulhania Le Jayenge* (UK, mainly Switzerland), *Taal* (Britain), *Kabhi Khushi Kabhi Gham, Kal* (Britain), *Cheeni Kum* (Britain), *Kal Ho Na Ho, Kabhi Alvida Na Kehna* (USA), *Don* (Malaysia), *Salaam Namaste* (Victoria, Australia), *Fanaa* (Poland).

Film-tourism in Bollywood began with the producer/director Mr. Yash Chopra, who regularly used landscapes from the United Kingdom and Switzerland as filming locations, increasing Switzerland’s Indian tourist traffic by nearly 30% (Dubai, 2008). Chopra was even honored by the Swiss government for the promotion of Switzerland through his films. More than 200 Bollywood titles have been shot in Switzerland over the past two decades alone (Global Travel Industry News, 2008). Many Indians flock annually to Swiss locations in which popular Bollywood films were shot to recreate and relive scenes from their favorite films. “Most of the Swiss sequences are dream scenes in which lovers dance or romp on Alpine meadows strewn with flowers or roll in the snow in unlikely flimsy Indian garb on wintry slopes” (Tagliabue, 2010).

Other destinations outside Switzerland have also seen a boom in tourism thanks to Bollywood films. Many articles in newspapers and magazines have reported that Indian audiences and even non-Indian audiences who watch Bollywood movies on a regular basis visit the destinations shown in the movies. Britain’s Tourism Authority has come up with a “Bollywood map” (Bollywood movies shot in Britain), which depicts the most visited destinations by Indian tourists in Britain (Bollywood gives a boost, 2008).

Additionally, Spain was recently featured in a blockbuster Bollywood hit - *Zindagi Na Milegi Dobrara*. More importantly, Spanish Flamenco dancing was incorporated into the film as per suggestion by the Spanish Tourism Authority. The movie essentially served as a full length tourism advertisement for Spain, showing different levels of accommodations and tourist activities, such as the famous Running of the Bulls festival and the La Tomatina festival. Within one month of the film’s release, visa applications had risen by over 100% at the Spanish embassy and consulates in India, with documented numbers of 2500 visa applications per month now recorded, whereas pre-release numbers averaged around 800 (Munshi, 2012).

### Foreign travel & Involvement

The involvement construct originally developed by Zaichkowsky (1985) has often been used within travel and tourism (Clements and Josiam, 1995; Josiam, Smeaton & Clements, 1999; Kinley, Josiam, & Lockett, 2010), and is increasingly being implemented in studies regarding films and movies. Involvement can be defined as a state of emotion influenced and directed by motivations or goals, ultimately determining the relevance of a purchasing decision to a specific consumer (Brennan & Mavondo, 2000). Previous research has proven its influence on the consumer decision making process, solidifying its importance as a research element when evaluating services or products (Cohen & Goldberg, 1970).
In 1989, Fesenmaier and Johnson segmented travelers by involvement and found that high involvement individuals often use both travel specific books and movies or films when planning a vacation, while those in lower involvement segments do not rely on the use of films or books to make a decision on where to travel. Kim (2012) investigated the extent to which involvement in a serialized drama can affect on-site film tourism experiences at locations formerly used during production. Kim and Wang (2012) noted that audience involvement with a popular Korean drama influenced tourism behaviors among Chinese, Japanese, Thai, and Taiwanese viewers.

However, no studies have been conducted that examine involvement with foreign travel among Indians. Furthermore, no study has examined how involvement levels may be related to Bollywood films viewed by Indians.

**Push & Pull Motivators in Tourism**

Much research has been completed previously regarding push and pull motivations relating to tourism. Crompton (1979) defined push motivations as those which explain a consumers’ desire to travel, while pull motivations are those that explain the choice of destination. Hudson and Ritchie (2006) more recently combined ideas from previous film-induced tourism research, compiling push and pull motivations that most affect the film tourist. The ideas for motivations in the Hudson and Ritchie paper were originally derived from Macionis’ (2004) framework which dissected movie tourists into categories and laid out potential travel motivations for travel to locations within films. Macionis’ research proposed three push motivation categories in a continuum: social interaction and novelty for serendipitous movie tourists; escape, novelty, education, and nostalgia for general movie tourists; and ego-enhancement, self-actualization, pilgrimage, self-identity, vicarious experience, fantasy, status/prestige, romance, and nostalgia for a specific movie tourist.

“Essentially, movies become ‘pull’ factors (attractions) situated in ‘push’ locations (tourism generating areas)” (Riley & Van Doren, 1992, p.270). Riley and Van Doren (1992) look at movies as pull factors, drawing a tourist into a destination. Close Encounters of a Third Kind was referenced as conclusive evidence to the effect a movie can have on tourism, as a 75% increase in tourist numbers was witnessed the year after its release, effectively illustrating that movies can be a pull factor for tourism destinations. Hudson and Ritchie (2006) used the push-pull framework and emphasized that push and pull motivators are possibly stimulated by destination marketing activities, destination attributes, and film specific factors. The type of medium used to draw a tourist to a location can have significant influence on a tourist’s decision. Previous research has illustrated that film is a successful medium for tourism when the storyline and site are closely entwined. Furthermore, if the film provides the audience with an emotional experience, they are likely to link the emotions induced to the location in which the film displayed. Further exposure to a destination can be given by repeat viewing, and in result, consumers develop “a greater familiarity, attachment and identification, all of which may result in a desire to visit looking for the sites, people, experiences, and fantasies portrayed in the film” (Hudson & Ritchie, 2006, p. 394).

From the motivation perspective, Fernandez-Young & Young (2006) focus on the significance of focal points for visitation, such as a favorite actor, the film’s symbolic content, a theme running throughout the film, or the destinations geographical features. Illustrating this phenomenon, Riley et al. (1998) collected tourism data from film locations across the USA, measuring increases in visitation after the films’ release. Suni and Komppula (2012) looked at movie-induced tourism push-motivations and found that four themes
emerged from 30 push motivations. These four themes for travel motivation were control, relaxation, novelty, and nostalgia.

Another study of people interested in film and travel (Macionis and Sparks, 2009) concluded that survey respondents showed deeper interest in the novelty of the travel experience and having an enjoyable experience rather than fantasy elements such as feeling like they are a part of the film or feeling akin to the star of the film.

**METHODOLOGY**

**Instrument**
A questionnaire was developed based on previous research involving the impact of films and television on tourism. Questions asked included those regarding preference of Indian TV and Film, involvement level with regards to international travel and tourism, choice of destination based on films seen, and participation in activities at tourist destinations motivated by Bollywood film scenes. The population of this study consists of people of India, who watch Bollywood films and TV shows.

The involvement construct was originally developed by Zaichkowsky (1985) and consisted of 20 bipolar scaled questions. Josiam, Kinley, & Kim (2004) condensed the scale from 20 items to 10 bipolar scaled items in a study about involvement and the tourist shopper. This study modified the scale used by Josiam et al. (2004) and reformatted it into an agreement scale (for easier understanding by Indian respondents), listing each item on a 5 point Likert scale from strongly disagree (1) to strongly agree (5). All respondents were asked to indicate their personal involvement levels with foreign travel for each of the 10 items on the scale.

Survey administration was done using a convenience sample, with participation being voluntary, confidential and anonymous. No incentives or compensation was given for participation in the study. The survey was conducted in India in the National Capital Region of New Delhi. Respondents were approached by post-graduate students at metro stations and malls and invited to participate in the study. Respondents were screened to be over age 18 and for ability to complete a written survey in English.

**FINDINGS**

**Objective 1: To determine the demographic profile of Indians who watch Bollywood movies.**

The study returned 670 usable surveys. Demographics of the sample are presented in Table 1. Age of participants ranged from 18 to 60 years, with almost half aged 18-25. Nearly 60% of the sample was male, and most had earned at least a bachelor’s degree and made between 55,000 and 115,000 Indian rupees monthly (US$ 1,000 to US$ 2,500). Hindi was the most commonly spoken language of the sample, with nearly 70% reporting it as their primarily spoken language. Two-thirds of the sample was employed full time. Almost half reported that they had traveled abroad. Additionally, nearly 60% of the sample population was single.
Table 1: Demographic characteristics of the sample

<table>
<thead>
<tr>
<th>Demographics</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>395</td>
<td>59.0</td>
</tr>
<tr>
<td>Female</td>
<td>274</td>
<td>41.0</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-25 years old</td>
<td>317</td>
<td>47.3</td>
</tr>
<tr>
<td>26-30 years old</td>
<td>172</td>
<td>25.7</td>
</tr>
<tr>
<td>31-40 years old</td>
<td>112</td>
<td>16.7</td>
</tr>
<tr>
<td>40-60 years old</td>
<td>69</td>
<td>10.3</td>
</tr>
<tr>
<td>Employment Categories</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed</td>
<td>433</td>
<td>66.7</td>
</tr>
<tr>
<td>Unemployed/Student</td>
<td>216</td>
<td>33.3</td>
</tr>
<tr>
<td>Level of Education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Some College or Less</td>
<td>109</td>
<td>16.5</td>
</tr>
<tr>
<td>Bachelor’s Degree</td>
<td>202</td>
<td>30.6</td>
</tr>
<tr>
<td>Post Grad Certificate/Masters</td>
<td>252</td>
<td>38.2</td>
</tr>
<tr>
<td>Professional Degree/Doctorate</td>
<td>97</td>
<td>14.7</td>
</tr>
<tr>
<td>Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 55,000</td>
<td>175</td>
<td>26.5</td>
</tr>
<tr>
<td>55,001 to 115,000</td>
<td>372</td>
<td>56.4</td>
</tr>
<tr>
<td>More than 115,000</td>
<td>113</td>
<td>17.1</td>
</tr>
<tr>
<td>Mother Tongue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hindi</td>
<td>460</td>
<td>68.7</td>
</tr>
<tr>
<td>Punjabi</td>
<td>68</td>
<td>10.1</td>
</tr>
<tr>
<td>Bengali</td>
<td>42</td>
<td>6.3</td>
</tr>
<tr>
<td>Other</td>
<td>100</td>
<td>14.9</td>
</tr>
<tr>
<td>Marital Status</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>383</td>
<td>57.8</td>
</tr>
<tr>
<td>Married</td>
<td>280</td>
<td>42.2</td>
</tr>
<tr>
<td>Traveled abroad?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>324</td>
<td>48.4</td>
</tr>
<tr>
<td>No</td>
<td>345</td>
<td>51.6</td>
</tr>
</tbody>
</table>

Note: totals differ due to missing data
Objective 2: To determine the level of involvement that Indians have with foreign travel.

Respondents were asked to complete a ten item involvement scale originally based off Zaichkowsky’s (1985) scale. Josiam, Kinley, and Kim (2004) condensed the scale used by Zaichkowsky and applied it to their study of tourist shoppers in the United States, with a Cronbach’s alpha of .95, identical to the reliability score of the original Zaichkowsky scale. The involvement construct used in this study was based on the Josiam et al. (2004) study and has a Cronbach’s alpha of .888, indicating a strong reliability and that it can be used for further research in this field (Table 2).

Mean involvement was found to be 3.47 (SD = .724) on a 5.0 scale. The median score was reported at 3.50, indicating a relatively normal distribution when compared to the mean. Range of involvement scores were subdivided into three categories: Low (1.0-2.33), Medium (2.34-3.66), and High (3.67-5.0). The study conducted by Josiam et al. (2004) regarding tourist shopping found that the low involvement had the smallest sample population and the medium involvement category had the highest sample population. Similarly, researchers found that the low involvement category was least populated and the medium involvement had the most respondents. Table 2 illustrates the distribution of the sample among involvement categories. Almost half of the sample was classified as medium involvement (49.3%) and less than 10% fell into the low involvement category. Additionally, the high involvement category housed a higher than expected number of respondents, with more than 40% of respondents categorized as highly involved with foreign travel (Table 2).

<table>
<thead>
<tr>
<th>Table 2: Foreign Travel Involvement Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Involvement</td>
</tr>
<tr>
<td>1.00-2.33</td>
</tr>
<tr>
<td>N (%)</td>
</tr>
<tr>
<td>53 (7.9)</td>
</tr>
</tbody>
</table>

Mean involvement Score = 3.47; Median Score = 3.50; Modal involvement Score = 3.00
Reliability (Alpha) = .888

Using a crosstabs analysis with Chi-square, involvement segments were compared in terms of demographics (Table 3). Significant differences were seen between age groups, education levels, income brackets, and primary language spoken. No differences were found between genders, having travelled abroad (Yes/No), or marital status. Individuals categorized as low involvement are significantly older and have a lower education level than other involvement categories. Additionally, low involvement individuals make significantly less income than medium and high involvement individuals, suggesting that their low income level precludes them from aspiring to travel abroad. Medium involvement individuals are primarily speakers of Hindi and have similar income and education levels as the high involvement group. Individuals categorized as high involvement make significantly more income than low involvement individuals, primarily speak Hindi, and are on average, the youngest group. This is likely due to the fact that many young Indians live at home with family instead of on their own, allowing for more available discretionary spending, and hence, more ability to aspire to and actually travel to foreign countries.
Table 3: Demographic characteristics by involvement segment: Frequencies and means

<table>
<thead>
<tr>
<th>Demographics</th>
<th>Low Involvement</th>
<th>Medium Involvement</th>
<th>High Involvement</th>
<th>Chi-squared</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N (%)</td>
<td>N (%)</td>
<td>N (%)</td>
<td></td>
</tr>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
<td>2.164</td>
</tr>
<tr>
<td>Male</td>
<td>36 (67.9)</td>
<td>195 (59.3)</td>
<td>164 (57.1)</td>
<td>(NS)</td>
</tr>
<tr>
<td>Female</td>
<td>17 (32.1)</td>
<td>134 (40.7)</td>
<td>123 (42.9)</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
<td></td>
<td>17.877**</td>
</tr>
<tr>
<td>18-25 years old</td>
<td>26 (49.1)</td>
<td>146 (44.2)</td>
<td>145 (50.5)</td>
<td></td>
</tr>
<tr>
<td>26-30 years old</td>
<td>9 (17.0)</td>
<td>100 (30.3)</td>
<td>63 (22.0)</td>
<td></td>
</tr>
<tr>
<td>31-40 years old</td>
<td>7 (13.2)</td>
<td>48 (14.5)</td>
<td>57 (19.9)</td>
<td></td>
</tr>
<tr>
<td>40-60 years old</td>
<td>11 (20.8)</td>
<td>36 (10.9)</td>
<td>22 (7.7)</td>
<td></td>
</tr>
<tr>
<td>Employment Categories</td>
<td></td>
<td></td>
<td></td>
<td>0.523</td>
</tr>
<tr>
<td>Employed</td>
<td>15 (29.4)</td>
<td>105 (32.9)</td>
<td>96 (34.4)</td>
<td>(NS)</td>
</tr>
<tr>
<td>Unemployed</td>
<td>36 (70.6)</td>
<td>214 (67.1)</td>
<td>183 (65.6)</td>
<td></td>
</tr>
<tr>
<td>Level of Education</td>
<td></td>
<td></td>
<td></td>
<td>17.709**</td>
</tr>
<tr>
<td>Some College or Less</td>
<td>18 (34.0)</td>
<td>54 (16.5)</td>
<td>37 (13.3)</td>
<td></td>
</tr>
<tr>
<td>Bachelor's Degree</td>
<td>9 (17.0)</td>
<td>98 (29.9)</td>
<td>95 (34.1)</td>
<td></td>
</tr>
<tr>
<td>PG and Master's Degree</td>
<td>16 (30.2)</td>
<td>130 (39.6)</td>
<td>106 (38.0)</td>
<td></td>
</tr>
<tr>
<td>Professional Degree/Doctorate</td>
<td>10 (18.9)</td>
<td>46 (14)</td>
<td>41 (14.7)</td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
<td>13.475**</td>
</tr>
<tr>
<td>Less than 55,000</td>
<td>24 (48.0)</td>
<td>82 (25.1)</td>
<td>69 (24.4)</td>
<td></td>
</tr>
<tr>
<td>55,001 to 115,000</td>
<td>18 (36.0)</td>
<td>189 (57.8)</td>
<td>165 (58.3)</td>
<td></td>
</tr>
<tr>
<td>More than 115,000</td>
<td>8 (16.0)</td>
<td>56 (17.1)</td>
<td>49 (17.3)</td>
<td></td>
</tr>
<tr>
<td>Mother Tongue</td>
<td></td>
<td></td>
<td></td>
<td>13.211*</td>
</tr>
<tr>
<td>Hindi</td>
<td>29 (54.7)</td>
<td>243 (73.6)</td>
<td>188 (65.5)</td>
<td></td>
</tr>
<tr>
<td>Punjabi</td>
<td>8 (15.1)</td>
<td>28 (8.5)</td>
<td>32 (11.1)</td>
<td></td>
</tr>
<tr>
<td>Bengali</td>
<td>5 (9.4)</td>
<td>22 (6.7)</td>
<td>15 (5.2)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>11 (20.8)</td>
<td>37 (11.2)</td>
<td>52 (18.1)</td>
<td></td>
</tr>
<tr>
<td>Marital Status</td>
<td></td>
<td></td>
<td></td>
<td>1.493</td>
</tr>
<tr>
<td>Single</td>
<td>32 (62.7)</td>
<td>194 (59.1)</td>
<td>157 (55.3)</td>
<td>(NS)</td>
</tr>
<tr>
<td>Married</td>
<td>19 (37.3)</td>
<td>134 (40.9)</td>
<td>127 (44.7)</td>
<td></td>
</tr>
<tr>
<td>Traveled Abroad</td>
<td></td>
<td></td>
<td></td>
<td>5.175</td>
</tr>
<tr>
<td>Yes</td>
<td>20 (37.7)</td>
<td>153 (46.4)</td>
<td>151 (52.8)</td>
<td>(NS)</td>
</tr>
<tr>
<td>No</td>
<td>33 (62.3)</td>
<td>177 (53.6)</td>
<td>135 (47.2)</td>
<td></td>
</tr>
</tbody>
</table>

NS = no significant difference between categories
*Significant at p<.05; **Significant at <.01
Note: Totals vary due to missing data
Objective 3: To determine the level of engagement that Indians have with Bollywood movies and the relationship of movie engagement with foreign travel involvement

Respondents were requested to complete seven questions related to movie engagement. Respondents were asked to rate their answer to each question on a 5 point scale from strongly disagree (1) to strongly agree (5). A descriptive analysis (Table 4) revealed that over 50% of respondents indicated that they agree or strongly agree with that statement, “I seek out information or gossip pre-release.” Many also indicated that their family and friends ask for recommendations (45.4%) and nearly 30% consider themselves to be a “Bollywood Movie buff” or a “super fan”. The results from this section indicate that there is a relatively large segment of the Indian movie watching audience that is passionate about Bollywood movies (between 20% and 50%). As previously stated, 20% of a population of over one billion represents a substantial market segment. Thus, even low percentages still represent significant market segments.

Furthermore, four questions were asked regarding the eagerness to view Bollywood movies (Table 4). Nearly 30% of respondents try to watch movies on the day of release; while 40% also indicate that if they cannot see it the first day of release, they prefer to see it as soon as possible. Generally, most Indians do not wait to see the movie for a discounted price after it has been playing for an extended amount of time (71%) or wait for the film to come out on DVD (69.7%).

Correlations analysis was conducted to determine if a relationship exist between foreign travel involvement and movie engagement and eagerness. A weak but positive correlation was evident in all engagement categories, as well as “I watch movies on the first day of release in theaters” and “I watch movies as soon as they are released in theaters (if I cannot make it the first day)”. An ANOVA was then conducted on the data to determine differences between involvement levels and movie engagement. The results are displayed in Table 5. All three involvement levels significantly differ in all movie engagement categories. High involvement individuals consistently rate themselves as more highly engaged in movie related behaviors than lower involvement segments. Additionally, higher involvement individuals are more likely than medium and low involvement individuals to see movies on the day a movie is released in theaters.

The findings of the descriptive analysis suggest that seeing a film the day or week it is released is of high priority for a significant segment of Indians. In addition, most do not wait until the film is available at a cheaper price in theaters or released on DVD or VCD, indicating that the level of passion that many Indians have with Bollywood movies. Furthermore, it is important to note the relationship between involvement in foreign travel and movie engagement and eagerness. Highly involved individuals may be viewing movies more often than those who are less involved and thus more likely to see and be inspired the landscapes of foreign countries displayed in Bollywood films.
Table 4: Movie Engagement & Eagerness  (N=670)

<table>
<thead>
<tr>
<th></th>
<th>Strongly/ Disagree</th>
<th>Neutral</th>
<th>Strongly/ Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I seek information/gossip about new Bollywood movies before release</td>
<td>23.3</td>
<td>25.2</td>
<td>51.5</td>
</tr>
<tr>
<td>Friends/family ask me for recommendations about Bollywood movies</td>
<td>24.5</td>
<td>30.1</td>
<td>45.4</td>
</tr>
<tr>
<td>I am a Bollywood movie “fanatic,” “buff,” or “aficionado”</td>
<td>36.7</td>
<td>34.3</td>
<td>28.9</td>
</tr>
<tr>
<td>I watch movies on the first day of release in theaters</td>
<td>43.5</td>
<td>27.8</td>
<td>28.8</td>
</tr>
<tr>
<td>I watch movies as soon as they are released (if not make on the first day)</td>
<td>32.1</td>
<td>28.8</td>
<td>39.1</td>
</tr>
<tr>
<td>I wait until the movie is available at a cheaper price in theaters</td>
<td>46.0</td>
<td>25.1</td>
<td>29.0</td>
</tr>
<tr>
<td>I wait until the movie comes out on DVD/VCD</td>
<td>41.8</td>
<td>27.9</td>
<td>30.3</td>
</tr>
</tbody>
</table>

*Note 1*: data is represented as percentage.  
*Note 2*: Responses in five agreement categories have been condensed into three for succinct reporting.

Objective 5: To determine the propensity among Indians to participate in activities at destinations shown in Bollywood movies and TV programs.

Respondents were requested to answer thirteen questions to assess the individual’s propensity to partake in activities portrayed in Bollywood movies. Again, these questions were given as a five point scale ranging from “strongly disagree” (1) to “strongly agree” (5). Findings from the analysis indicate that most respondents have a lower level of propensity to take part in activities they have viewed in Bollywood movies and TV programs (Table 6). However, approximately 40% of respondents indicated that they have previously participated in activities when travelling because they saw it in a Bollywood movie or television program, shopped at stores or malls seen in a Bollywood movie or television program, or have gone to a festival or fair that they saw in a Bollywood movie or television program. Additionally, 32% of respondents noted that they eat at restaurants seen in Bollywood movies or television programs when they travel.

These findings indicate that Indians 20-40% of Indian Bollywood movie viewers translate their interest in Bollywood movies into tourist actions, including purchasing souvenirs, visiting set locations, and partaking in activities seen in Bollywood film and Television. Opportunities abound for destination marketing in Bollywood films and television, as well as product placement of travel related souvenirs. For example, a boom in sales of cowbells has seemed to occur in Switzerland after the heroine was shown purchasing the item in the 1994 film Dilwale Dulhania Le Jayenge (Shah, 2012).
Table 5: ANOVA Involvement and Movie Engagement & Eagerness

<table>
<thead>
<tr>
<th>Activity</th>
<th>Low Involvement</th>
<th>Medium Involvement</th>
<th>High Involvement</th>
<th>F-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>I seek information/gossip about new Bollywood movies before release</td>
<td>2.49</td>
<td>3.23</td>
<td>3.69</td>
<td>F = 33.444*</td>
</tr>
<tr>
<td>Friends/family ask me to recommend movies</td>
<td>2.36</td>
<td>3.14</td>
<td>3.52</td>
<td>F = 34.140*</td>
</tr>
<tr>
<td>I am a movie “fanatic,” or “aficionado”</td>
<td>2.26</td>
<td>2.75</td>
<td>3.13</td>
<td>F = 15.979*</td>
</tr>
<tr>
<td>I watch Bollywood movies on the first day of release in theaters</td>
<td>2.36</td>
<td>2.58</td>
<td>3.06</td>
<td>F = 15.163*</td>
</tr>
<tr>
<td>I watch movies as soon as released in theaters (if not the first day)</td>
<td>2.43</td>
<td>2.98</td>
<td>3.3</td>
<td>F = 16.912*</td>
</tr>
<tr>
<td>I wait until the movie is available at a cheaper price in theaters</td>
<td>2.42</td>
<td>2.71</td>
<td>2.89</td>
<td>F = 4.011**</td>
</tr>
<tr>
<td>I wait until the movie comes out on DVD/VCD</td>
<td>2.79</td>
<td>2.83</td>
<td>2.89</td>
<td>F = 0.162</td>
</tr>
</tbody>
</table>

*Significant at p < .01
** Significant at p <.05

Spears, Josiam, Kinley, & Pookulangara (2012) report that “statistical findings support the contention that people who are eager to watch movies/TV productions are highly engaged in movies/TV, and are more likely to participate in movie/TV related tourism” (p. 70). Furthermore, those expressing higher levels of movie engagement are more likely than those who express low levels of engagement to take part in an activity seen in movies. Similar results are found between involvement and engagement among Indian viewers of Bollywood films and television. Individuals with a higher involvement in foreign travel report a higher propensity to participate in activities related to the movies they have previously viewed when traveling. As indicated earlier, this could also be a function of income – as those with higher income have the means and ability to travel abroad, purchase products, and participate in activities.

Correlation analysis was employed to determine if a relationship exists between travel activities and involvement levels. Through the analysis, involvement average was shown to positively correlate with each of the actions listed in Table 6, indicating that as involvement increases, frequency in participation in travel related activities inspired by the foreign locales seen in Bollywood films and television programs also increases. All relationships were found to be significant at p < .01. An analysis of variance (ANOVA) was then performed on the travel activities data (Table 7), indicating differences between groups in all 13 questions. The ANOVA results support the findings of the correlation analyses. It appears that as involvement increases, participation in travel activities inspired by what was seen previously in Bollywood films also increases.
Using The Involvement Construct To Understand The Impact Of Bollywood On The Activities And Behaviors Of Indian Tourists: An Empirical Study

Table 6: Propensity to participate in activities as shown in Bollywood Movies (N = 670)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Strongly/Disagree</th>
<th>Neutral</th>
<th>Strongly/Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have taken a movie or TV related tour when travelling</td>
<td>50.6</td>
<td>27.1</td>
<td>22.3</td>
</tr>
<tr>
<td>I make it a point to visit spots where a scene was shot</td>
<td>38.6</td>
<td>27.9</td>
<td>33.5</td>
</tr>
<tr>
<td>I have traveled to destinations to see/interact with Bollywood stars</td>
<td>46.9</td>
<td>28.8</td>
<td>24.3</td>
</tr>
<tr>
<td>I have traveled to destinations to be like my favorite Bollywood star</td>
<td>48.2</td>
<td>26.3</td>
<td>25.4</td>
</tr>
<tr>
<td>I have participated in activities because I have seen Bollywood stars</td>
<td>30.4</td>
<td>28.2</td>
<td>41.3</td>
</tr>
<tr>
<td>I have re-enacted scenes in the location they were set</td>
<td>47.9</td>
<td>28.2</td>
<td>23.9</td>
</tr>
<tr>
<td>I purchase travel souvenirs used or purchased by Indian movie/TV stars</td>
<td>47.0</td>
<td>29.0</td>
<td>24.0</td>
</tr>
<tr>
<td>I eat at restaurants that I have seen in an Indian movie/TV program</td>
<td>37.5</td>
<td>30.4</td>
<td>32.1</td>
</tr>
<tr>
<td>I drink at bars that I have seen in an Indian movie or TV program</td>
<td>44.6</td>
<td>29.8</td>
<td>25.2</td>
</tr>
<tr>
<td>I stay at hotels that I have seen in an Indian movie or TV program</td>
<td>43.9</td>
<td>31.0</td>
<td>25.1</td>
</tr>
<tr>
<td>I go to nightclubs/discos that I have seen in a movie or TV program</td>
<td>43.1</td>
<td>26.5</td>
<td>30.5</td>
</tr>
<tr>
<td>I shop at stores/shops/malls that I have seen in a movie or TV program</td>
<td>29.7</td>
<td>30.4</td>
<td>39.8</td>
</tr>
<tr>
<td>I go to festivals/fairs/events that I have seen in a movie or TV program</td>
<td>25.3</td>
<td>31.2</td>
<td>43.5</td>
</tr>
</tbody>
</table>

Note 1: data is represented as percentage.
Note 2: Responses in five agreement categories have been condensed into three for succinct reporting.

Table 7: ANOVA Travel Activities and Involvement Levels

<table>
<thead>
<tr>
<th>Activity</th>
<th>Low Involvement (N = 53)</th>
<th>Medium Involvement (N = 330)</th>
<th>High Involvement (N = 287)</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have taken a movie or TV related tour when travelling</td>
<td>2.19</td>
<td>2.45</td>
<td>2.84</td>
<td>13.901*</td>
</tr>
<tr>
<td>I visit spots where a scene was shot from an Indian movie/TV show</td>
<td>2.08</td>
<td>2.71</td>
<td>3.29</td>
<td>47.179*</td>
</tr>
<tr>
<td>I have traveled to specific destinations to see or interact with movie and/or TV stars</td>
<td>2.08</td>
<td>2.55</td>
<td>2.85</td>
<td>14.107*</td>
</tr>
<tr>
<td>I have participated in activities when travelling because I have seen Indian movie/TV stars doing that activity</td>
<td>2.11</td>
<td>2.51</td>
<td>2.91</td>
<td>18.349*</td>
</tr>
<tr>
<td>I have participated in activities when travelling because I have seen Indian movie/TV stars doing that activity</td>
<td>2.47</td>
<td>3.05</td>
<td>3.34</td>
<td>15.476*</td>
</tr>
</tbody>
</table>
I have re-enacted scenes when at the places where those movie and/or TV shows were shot 2.23 2.52 2.75 6.311*
When I travel, I purchase travel souvenirs that I have seen being used or purchased by Indian movie/TV stars 2.25 2.56 2.89 12.143*
I eat at restaurants that I have seen in an Indian movie/TV program 2.43 2.79 3.06 9.850*
I drink at bars that I have seen in an Indian movie or TV program 2.11 2.59 2.87 12.241*
I stay at hotels that I have seen in an Indian movie or TV program 2.15 2.58 3.00 19.794*
I go to nightclubs/discos that I have seen in a movie or TV program 2.25 2.58 3.16 26.024*
I shop at stores/malls that I have seen in a movie or TV program 2.02 2.90 3.49 53.927*
I go to festivals/fairs that I have seen in a movie or TV program 2.38 3.05 3.55 33.482*

*Significant at p < .01

Objective 6: To determine the motivation among Indians to visit destinations shown in Bollywood movies and TV programs.

Respondents were also asked four questions to assess motivation to visit foreign locations shown in Bollywood television and film. Like previous questions, all answers were on a 5 point scale from “strongly disagree” (1) to “strongly agree” (5). Findings indicate (Table 8) that the strongest motivation to visit destinations shown in Bollywood movies is “Indian movies with scenes set in foreign locations”. A significant segment of the sample (45%) indicated that “Indian movies with scenes set in foreign locations” was a motivation to visit those destinations. Additionally, 45% of respondents indicated that Bollywood songs filmed in foreign locations were also a significant motivation for travelling to a destination.

Television programs also had an effect on motivations to travel to foreign locations; however, their effects were slightly weaker than Bollywood films. This is likely because producers of films often have higher budgets, allowing for scenes to be shot at the most picturesque locations abroad, and the location can be showcased for a much longer time, as many Bollywood films run over three hours, while television programming is generally limited to half hour and hour segments.

Table 8: Motivations to Visit Destinations Shown in Bollywood Movies/TV (N=670)

<table>
<thead>
<tr>
<th></th>
<th>Strongly/ Disagree</th>
<th>Neutral</th>
<th>Strongly/ Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian Movies with scenes set in foreign Locations</td>
<td>26.5</td>
<td>28.4</td>
<td>45.0</td>
</tr>
<tr>
<td>Indian Movie songs pictured in foreign locations</td>
<td>26.4</td>
<td>28.4</td>
<td>45.8</td>
</tr>
</tbody>
</table>
Correlation analysis was conducted to determine if a relationship exists between involvement average and motivations to visit a destination shown in Bollywood films and TV programs. This analysis indicated weak to moderate positive correlations across every motivation category. As involvement increases, motivation to visit a destination shown in Bollywood films or television programs also increases. An ANOVA analysis also indicated similar findings as the correlation analysis (Table 9). Again, as involvement in foreign travel increased, motivation to travel to destinations shown in Bollywood films/TV also increased. This is not surprising, as individuals highly involved in foreign travel are more likely to be sensitive to and influenced by locations that they see in Bollywood movies.

| Table 9: ANOVA Involvement and Motivations to Travel to Destinations Seen in Bollywood Films/TV |
|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Low Involvement (N = 53) | Medium Involvement (N = 330) | High Involvement (N = 287) | F-values |
| Indian movies with scenes set in foreign locations | 2.42 | 2.96 | 3.66 | 50.711* |
| Bollywood movie songs pictured in foreign locations | 2.21 | 3.06 | 3.56 | 50.345* |
| Indian TV shows set in foreign locations | 2.53 | 3.07 | 3.40 | 13.719* |

*Significant at p < .01

Conclusion

The findings of this research suggest that a large segment of the Indian population is passionate about Bollywood movies and television programs. Engagement in movies begins before the movie is released, with many seeking out information prior to viewing.

This strong level of engagement has a significant impact on the tourism motivations and behaviors. Many indicate a high propensity to participate in activities influenced by Bollywood movies, including taking a movie or TV related tour or reenacting scenes from movies. Those segmented into the high involvement group indicated higher levels of propensity to participate in tourist activities influenced by movies. Thus, it is important for destination marketers to concern themselves with Bollywood movies and television in order to tap into a rapidly growing, affluent market of Indian travelers to locations worldwide. Additionally, those viewing Bollywood movies outside of India can be effectively marketed to using the same means, increasing travel motivations of those who watch Bollywood movies and television programs worldwide.

Implications & Limitations

The findings of this research may not be generalizable to the entire Indian population due to the convenience sampling method employed to gather data, although a large sample size was obtained. Future studies should use a random sampling method to ensure that the results can
Using the Involvement Construct To Understand The Impact Of Bollywood On The Activities And Behaviors Of Indian Tourists: An Empirical Study

be generalized to the greater population. Additionally, no verification of activity or purchase was conducted; the study simply asked participants to indicate personal behavior on the survey. Using more specific questions in future studies could help verify the influence of media on purchase and activity behaviors of Indian movie fans.

REFERENCES


The Impact of the Volatility of Exchange Rates on the UK Aggregate Bilateral Exports to the G7 Countries and the Asian Four Countries

Abstract

This paper has investigated the relationship between exchange-rate volatility and the UK bilateral aggregate exports to other G7 members and developing Asia Four countries from 1990 to 2006. The effect of both nominal and real exchange rate risk on UK has been examined using GARCH, cointegration and equilibrium-correction techniques. We find that the net effect of volatility on real UK exports to countries is negative in the short run, it may vary with export partners and cannot be classified as a large determinant of short run changes in UK exports.

JEL classification: F16; F31; P16

Key words: Exchange rate volatility, UK, G7, Asia Four

Introduction

It is established in the literature that impediments to trade (such as transport costs) introduce price differentials, and therefore, result in deviations from the ‘law of one price’. Uncertainty can therefore be an example of an impediment to trade and can therefore be a cause of such deviations. If purchasing power parity (PPP) holds, domestic and foreign trade would not systematically involve a different degree of uncertainty. However, exchange rates have exhibited significant and persistent deviations from PPP since the collapse of the Bretton Woods system. Such an increase in exchange rate uncertainty may lead risk-averse firms to reduce their market transactions. Deviations from purchasing power parity during the recent floating exchange rate period have been found to be positively related to exchange rate volatility as well as to transportation costs (Wei and Parsley, 1995). The key issue considered in this chapter is the effects of exchange rate volatility on UK aggregate bilateral exports to the G7 and developing East Asian Four from 1990-2006.

Following the collapse of the Bretton Woods system it has been observed that, while exchange rate volatility has increased considerably, the growth in the volume of international trade has greatly declined (Smith, 1999; Wei, 1999; De Grauwe, 1992; Beckett and Sellon 1989). Most of the empirical work has confirmed that the rise in the volatility of exchange rates has reduced and does have some consequences on trade flows. However, the effect of exchange rate volatility on trade remains a controversial issue in international economics. Despite the best efforts of economists, a basic question as to whether exchange-rate volatility benefits or adversely affects trade flows remains unresolved (McKenzie, 1999). These arguments will be reviewed below.

Over the past thirty years, the UK, as one of the countries with the highest levels of
integration in the world economy, has benefited from trade liberalisation and globalisation. It is also one of the world’s largest exporters of goods and services, with its exports standing at around one-quarter of GDP over the last few decades (Figure 1).

Figure 1 Exports in the UK (% of GDP)

Source from: World Bank

The purpose of this chapter is to investigate the impact of exchange-rate volatility on the UK exports to the two groups of countries, G7 countries and the Asian Four developing countries over recent decades. The countries under study are Canada, France, Germany, Italy, Japan, UK, US, Indonesia, Malaysia, Philippines and Thailand. The time period is from January 1990 through to December 2006.

Figure 2 UK Exports to G7 (% of UK Exports to World)

Source from: IMF Direction of Trade (DOT)

Figure .2 shows that the UK exports to G7 countries account for more than 40% of the UK exports to world. The exports even reached around 45% of total exports in the early 1990s and around 2000, but there is a downward trend before 1997, indicating that the financial crisis of 1997 had an adverse effect on the UK exports to the G7 countries. The share of the UK exports to each G7 countries is shown in Figure.3. The UK exports to the U.S. take account of more than 30% of the UK total exports to the G7 countries after 1992. It seems that the U.S. is the most important UK export partners among all of the G7 countries. The exports to Germany and France take account of 20-30 % of total exports to the G7 countries. The exports to Italy, Japan and Canada are less than
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To make a comparison with the G7 countries, the developing Asia Four are also considered in this study. Figure 4 shows that the UK exports to the Asia Four take account of 1-2% of the UK exports to world, far less than the UK exports to G7 countries. The exports to developing Asia Four were increasing before 1997, but sharply declined afterwards, indicating that the financial crisis of 1997 had adverse effect on the UK exports to the Asia developing countries.

Source from: IMF Direction of Trade (DOT)
The share of the UK exports to each country is shown in Fig. 5. The UK exports to Malaysia and Thailand take account of around 40% and 30% of exporting to the Asia Four, respectively. Exporting to Indonesia and Philippines take account of around 15% and 10%, respectively. Due to the economies of Indonesia, Thailand and Malaysia were hit by the financial crisis of 1997, and there was downward trend around 1997 in these countries.

Figure 5 UK Exports to the Asia Four Member Countries (% of UK Exports to the Asian Four)

Source from: IMF *Direction of Trade* (DOT)

This study employs a GARCH model to obtain a measure of exchange rate uncertainty and differs from the majority of studies that investigated the relationship between exchange-rate volatility and trade volume in a number of ways. Firstly, the fixed exchange-rate regime that resulted from the adoption of the euro (by France, Germany and Italy) is included in the analysis as one of the determinants of trade volume. This is significant because if exchange-rate volatility is included in the model as a determinant of bilateral trade volume, then the exchange-rate volatility variable may also be capturing the impact of a change in the exchange-rate regime on trade. Including adoption of the euro dummy enables its effect to be separated out from other aspects of trade volatility. Secondly, the dataset that has not been used before to examine the impact of exchange-rate volatility on trade flows are applied in this study. I initially investigate the trade between UK and these two groups of countries.

Aristotelous (2001) has investigated the impact of volatility on trade volume from Britain to the United States over the period 1889-1999 while controlling for changes in exchange-rates regimes. Pozo (1992) examined exports from Britain to the United States from 1900 to 1940 to ascertain the effect of exchange-rate volatility on the volume of trade. But these works only consider trade between the UK and the U.S., and do not take into account the fixed exchange rate regime period when the euro was adopted by 12 countries. The distinct contribution of the present study is to examine the impact of exchange-rate volatility and exchange-rate regime on UK exports to both typical developed countries (G7 countries) and also developing countries (the Asian Four). The value of considering both G7 and the Asian Four is that these countries are the UK’s main trading partners, and also the typical developed and developing countries. Few studies have investigated the UK exports with both developed and developing countries.

The rest of this chapter is organized as follows. In section 2 we survey the literature about the
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volatility of the exchange rate and trade flows in the period 1990-2007. In section 3 we discuss the data and set out the estimation techniques used in this study. Empirical results are analyzed in section 4 and section 5 summarizes the main chapter’s conclusions.

Literature Review

The increased risk associated with exchange rate volatility has been considered as an incentive to risk-averse agents to direct their economic resources to less risky activities. As a result, risk-averse exporters may be expected to reduce their trade volumes in response to uncertainty generated by greater exchange rate variability, since profits from trading internationally decline in line with unanticipated exchange rate changes. Indeed, a primary justification for the European Monetary System and for the single European currency has been the argument that exchange rate volatility will be reduced for member countries.

Theory does not allow us to conclude that an increase in risk necessarily leads to a reduction in the risky transaction activity since an increase in risk has both a substitution and an income effect and these two effects work in opposite directions. De Grauwe (1988), Dellas and Zilberfarb (1993) and Broll and Eckwert (1999) indicate that these two effects are at work in determining the outcome of the effect of volatility on trade. Increased risk is a cost that leaves traders less disposed to expose their resources to a loss (a substitution effect). However, increased risk implies that more resources should be sold to avoid a significant loss in revenues (an income effect). De Grauwe (1988) has stressed that the dominance of the income effect over the substitution effect can lead to a positive relationship between trade and exchange-rate volatility. This is because, if exporters are sufficiently risk-averse, an increase in exchange-rate volatility raises the expected marginal utility of export revenue and therefore induces them to increase exports.

De Grauwe (1988) argues that the effects of exchange-rate uncertainty on exports should depend on the degree of risk aversion. A very risk-averse exporter who worries about the decline in revenue may export more when risks are higher. As De Grauwe (1988) puts it, ‘although exporters are universally made unhappy by the volatility of exchange rates… some may decide that they will be better off by exporting more.’xxxvi On the other hand, a less risk-averse individual may not be concerned with the worst possible outcome and, considering the return on export less attractive, may decide to export less when risks are higher.

Bailey, Tavlas and Ulan (1986a) and Tavlas and Swamy (1997) have provided additional reasons why the effect of exchange-rate risk on foreign trade could be positive. The authors argue that, if traders gain knowledge through trade, enabling them to anticipate changes in exchange rates better than the average participant in the foreign exchange market, they can profit from this knowledge. That profit may offset the risk represented by movements in the exchange rate. The income earned by using such knowledge in the foreign-exchange market may offset the risk represented by movements in the exchange rate. They point out that, in any fast-changing business environment, price-affecting information is scarce and valuable, and these traders are likely to have proprietary access to some of it.

Theoretical models of hysteresis in international trade (Baldwin and Krugman, 1989) have shown that increased uncertainty from high volatility in exchange rates can also influence foreign trade. Although these theoretical models show that trade flows are characterized by hysteresis, they also suggest that hysteresis in trade flows can be explained by the combination of sunk costs and exchange-rate uncertainty. A foreign firm’s ability to enter or exit is
linked to the levels of exchange rate. In summary, their work suggests that, when significant sunk costs are involved in international transactions, exchange-rate uncertainty can affect trade behaviour, including that of risk-neutral firms. However, a problem with this work is that it provides no clear *a priori* conclusion which way trade will be affected.

The potentially negative impact of increased volatility on trade can be investigated by hedging. However, a number of limitations and costs are associated with such use of forward markets. Ethier (1973) offers several reasons why firms cannot, or may choose not to, completely eliminate exchange risk through forward contracts. For developing countries, forward exchange markets simply may not exist. For industrial countries, short-term exchange risk can probably be easily hedged in forward exchange markets, since short-term contracts are relatively cheap. It is well known that large corporations can adopt various strategies to cope with exchange risk, but managing futures portfolios will nonetheless entail a cost. Hedging risk to cover a longer horizon is much more difficult, because forward contracts are typically offered for relatively short horizons and exchange needs cannot be known with precision.

Caporale and Doroodian (1994) point out that the size of contracts can be a limitation since in the case of US-Canadian trade they must average $1 million per contract before hedging can take place. A further limitation is that customers must keep minimum deposits, usually for multiples of thirty days. These factors indicate the difficulties for trading firms in planning the volume and timing of their international transactions to make optimal use of forward markets. Wei (1999) examined the hedging explanation in the context of the relationship between volatility and trade. Using data for 1,000 pairs of countries from 1975 to 1990, the results indicate that countries for which hedging instruments are available do not experience lower effects of volatility than country pairs without such instruments.

There are numerous other possibilities for reducing exposure to the risk of adverse exchange rate fluctuations in addition to forward currency markets. For a multinational firm engaged in a wide variety of trade and financial transactions across many countries, there are many opportunities to exploit offsetting movements in currencies and other variables. Clark et al (2004) note that, to the extent that an exporter imports intermediate inputs from a country whose currency is depreciating, there will be some offset to declining export revenue in the form of lower input costs. In addition, when a firm trades with many countries, the tendency for some exchange rates to move in offsetting directions will provide a degree of protection to its overall exposure to currency risk. Makin (1978) concludes that there are many possibilities for a multinational corporation to hedge the foreign currency risks arising from exports and imports by holding a portfolio of assets and liabilities in different currencies.

**Real exchange rate volatility versus nominal exchange rate volatility**

In the international trade literature, it has long been recognized that it may be more appropriate to focus on real rather than nominal exchange rate fluctuations. In most theoretical models, the uncertainty of the exchange rate is embodied by the volatility of the real exchange rate, as opposed to that of the nominal exchange rate. The two are distinct conceptually, but do not differ greatly in reality since prices of goods tend to be sticky in local currency in the short-to-medium run. Hence, for practical purposes real and nominal exchange rate volatilities are virtually the same. The issue of relevance is whether a trader’s decisions are affected by nominal or real volatility: empirically, both have been investigated. McKenzie (1999:85) considered that ‘Whilst the distinction between real and nominal exchange rate volatility has generated a lot of debate… empirical results suggest that this distinction does not impact significantly on the results achieved.’
However, Bini-Smaghi (1991:933) considered that for research focusing on exchange rate risk, nominal exchange rates should be employed because ‘real exchange rate variability depends in effect not only on the variance of the nominal exchange rate but also on that of relative prices, which presents a different type of risk for private agents.’

If changes in prices are fully or partly offset by changes in exchange rates, then exchange rate variability may have little effect on the firms’ profits. Therefore, the measure of nominal volatility may be interpreted as a measure of ‘pure’ exchange rate risk. The estimate of real exchange rate volatility clearly includes more than a measure of exchange rate risk as single subject in both the nominal exchange rate and prices enters into its estimation. Hence, it encompasses more than exchange rate risk and may be viewed to contain an element of price competitiveness risk faced by internationally trading firms.

**Measures of Exchange Rate Volatility**

As regards the data used, the volatility estimator has become the target of increasing scrutiny. Various measurements have been used to capture the level of exchange-rate volatility (Table 1).

Exchange rate volatility has been defined in the economic literature in various ways. Measures of exchange rate volatility have been devised without relying on exchange rate models. For example, standard deviation, deviation from trend and the absolute percentage change of the exchange rate between the previous forward and the current rate.

The mean difference or Gini’s mean difference is an measure of statistical dispersion equal to the average absolute difference of two independent values drawn from a probability distribution. The mean deviation is a different measure of dispersion. Gini’s mean difference, as a widely used measure of inequality, has been rarely used recently in trade. An autoregressive integrated moving average (ARIMA) model is a generalization of an autoregressive moving average or (ARMA) model. These models are fitted to time series data either to understand better the data or to predict future points in the series. The model is generally referred to as an ARIMA \((p,d,q)\) model where \(p\), \(d\), and \(q\) are integers greater than or equal to zero and refer to the order of the autoregressive, integrated, and moving average parts of the model respectively. However, ARIMA identification is difficult and time consuming. Many of the models have no structural interpretation. Identification and estimation can be badly distorted by outlier effects. Models that perform similarly on the historical data may yield quite different forecasts.

The autoregressive conditional heteroscedasticity (ARCH) model, as a particular non-linear model in widespread usage in finance, relates the conditional variance of the error term to the immediately previous value of the squared error. It is employed commonly in modeling financial time series that exhibit time-varying volatility clustering. However, ARCH models have rarely been used in the last decade or more, since they bring with them a number of difficulties as follows: firstly, there is still no clear best approach to decide the number of lags of the squared residual in the model. Secondly, the number of lags of the squared error that are required to capture all of the dependence in the conditional variance might be very large. This would result in a large conditional variance model that was not parsimonious. Thirdly, non-negativity constraints might be violated. The more parameters there are in the conditional variance equation, the more likely it is that one or more of them will have negative estimated values.

A natural extension of the ARCH model which overcomes some of these problems is a GARCH model (Bollerslev, 1986; Taylor, 1986). In contrast with ARCH, GARCH models are vastly
employed in practice. The GARCH model allows the conditional variance to be dependent upon previous own lags. Using the GARCH model it is possible to interpret the current fitted variance, information about volatility during the previous period and the fitted variance from the model during the previous period. It is effectively an ARMA model for the conditional variance.

However, many of the extensions of the GARCH model have been suggested as a consequence of perceived problems with a standard GARCH model. The non-negativity conditions may be violated by the estimated model and the only way to avoid this would be to place artificial constraints on the model coefficients in order to force them to be non-negative. The exponential GARCH (EGARCH) model proposed by Nelson (1991) is suggested since it has no need to impose artificially non-negativity constraints on the model parameters and asymmetries are allowed for under the EGARCH formulation.

Some studies such as those by Pozo (1992) use a GARCH model to quantify volatility in the US-British exchange rate and have found significant negative effects on trade volume. McKenzie and Brooks (1997) examine US-German bilateral trade flows and, using an ARCH-derived measure of volatility, find that there is a positive and significant impact of exchange rate volatility on both exports and imports. Lobo and Tufte (1998) find the asymmetric effect of volatility of the exchange rate between the US dollar and the Canadian by using the EGARCH-M model.

In summary, the literature has used a number of measures of exchange rate volatility and variability as a proxy for risk. In this study, both nominal and real exchange rate uncertainty are examined in the empirical work. Empirically, alternative measures appear to be highly correlated (Grober, 1993). Garch model replies on the level of volatility being somewhat persistent. Using only previous volatility information, the model tries to incorporate recent results, recent trends, and some tendency toward a long-term level. GARCH model is employed in this aggregated trade study in the period of 1990-2006.

**Empirical results on the relationship between exchange rate volatility and trade**

Empirical researchers have examined the effect of both real and nominal exchange rate volatility on the volume of international trade. McKenzie (1999:100) concludes that the recent empirical studies have had ‘greater success in deriving a statistically significant relationship between volatility and trade.’

Calvo and Reinhart (2000) review a more limited set of such studies and reach a similar conclusion. The overall evidence is best characterized as mixed, as the results are sensitive to the choices of sample period, model specification, proxies for exchange rate volatility and countries considered. As Cote’s survey (1994) of the past empirical literature concludes,

‘Despite the widespread view that an increase in volatility will reduce the level of trade, this review reveals that the effects of volatility are ambiguous.’

While a large number of these empirical studies have shown negative impacts of exchange rate volatility on total trade, exports and imports, some have also reported both positive and insignificant consequences.

Table 1 summarises the findings of a number of recent studies on the issue. Only Lastrapes and Koray (1990), Bini-Smaghi (1991), Feenstra and Kendall (1991), Doroodian (1999), Rahmatsyah, Rajaguru and Siregar (2002), Siregar and Rajan (2004), Arize, Osang and Slottje (2008) report consistently adverse consequences of exchange rate volatility on exports and imports. Other
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studies such as by Hooper and Kohlhagen (1978), IMF (1984), Koray and Lastrapes (1989), Asseery and Peel (1991), Kroner and Lastrapes (1993), Frankel and Wei (1993), McKenzie and Brooks (1997), Arize (1998), Daly (1998), and McKenzie (1998) have found cases where a rise in exchange rate volatilities may have both positive and negative implications on exports and imports, depending on countries’ cases. There are also a few studies which conclude that exchange rate volatility plays no significant role in explaining exports and imports. This includes a study by Aristotelous (2001) and Tenreyro (2007), which found that exchange rate volatility had not had any significant impact on the performance of British exports to the United States during the period 1889-1999, nor on 87 countries’ bilateral trade during the period 1970-2007.

Apart from the lack of consensus in empirical work, some authors have explained how the impact of exchange rate risk on exports is not, ceteris paribus, unambiguously negative (Giovannini, 1988; Sercu and Vanhulle, 1989; Franke, 1991). Trade can be considered as an option held by firms, the value of which can rise with volatility. Sercu and Vanhulle (1989) present a model where firms assess entry (or exit) costs associated with entering (or leaving) a foreign market and compare them to profits (or losses) generated by exports and illustrate that it is feasible that any given firm will on average enter sooner and exit later when exchange rate volatility rises under a variety of different behavioural assumptions, so that the number of trading firms will on average increase. Consequently, the models suggest trade benefits from exchange rate volatility.

Empirically, a positive relationship between volatility and trade is evident in work by Gotur (1985), Bailey, Tavlas and Ulan (1986a) and Aschheim, Bailey and Ulan (1987). Bailey, Tavlas and Ulan (1986b) outlined two factors which imply that exchange rate variability can either inhibit or stimulate trade:

One is that the costs in reducing exchange rate risk may be greater than the variability resulted from controlling exchange rate risk. “If the monetary authority intervenes to reduce exchange rate variability (through exchange rate controls) the increased costs borne by an exporting firm may be greater than the variability the controls are aimed at reducing.”

The second is exchange rate volatility may stimulate a firm’s transaction, because “exchange rate volatility excludes the effect on the riskiness of a firm’s overall asset portfolio of additional amounts of a particular foreign currency. This additional effect depends on the covariance of the exchange rate with the prices of the firm’s other assets plus the own variance of the exchange rate.”

To summarize, the discussion above suggest that theory alone cannot determine the sign of the relation between foreign trade and exchange-rate volatility. The impact of exchange-rate volatility on foreign trade is highly ambiguous. Therefore it is an empirical issue.
### Table 1 Empirical Studies of Exchange Rate Volatility and Aggregated Trade Flows

<table>
<thead>
<tr>
<th>References</th>
<th>Country/sample period</th>
<th>Risk measure</th>
<th>The effect of ER volatility to trade</th>
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</thead>
<tbody>
<tr>
<td>Hooper and Kohlhagen (1978)</td>
<td>Germany, Japan, United Kingdom, United States, Canada, France (bilateral trade)</td>
<td>Average absolute difference between the current period spot ER and the forward</td>
<td>X: significant negative, positive and insignificant relationship.</td>
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<td>Quarterly (1965-1975)</td>
<td>rare of the last period.</td>
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<tr>
<td>IMF (1984)</td>
<td>G7 (bilateral trade)</td>
<td>Standard deviation of the percentage changes in the ER over the preceding</td>
<td>X: significant negative, significant positive and insignificant</td>
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<tr>
<td>Koray and Lastrapes (1989)</td>
<td>U.S., UK, France, Germany, Japan, Canada (bilateral trade)</td>
<td>Twelve month moving standard deviation of growth rate of real exchange rate</td>
<td>M: significant negative, significant positive and insignificant relationship.</td>
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<td></td>
<td>Quarterly (1959-1985)</td>
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<td></td>
<td>Quarterly (1973-1987)</td>
<td>exchange rate</td>
<td></td>
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<tr>
<td>Asseery and Peel (1991)</td>
<td>Australia, Japan, UK, U.S., West Germany (multilateral trade)</td>
<td>Squared residual from ARIMA process fitted to real exchange rate</td>
<td>X: significant negative, significant positive and insignificant relationship.</td>
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<td></td>
<td>Quarterly (1976-1984)</td>
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<tr>
<td>Bini-Smaghi (1991)</td>
<td>Italy, France and Germany (multilateral trade)</td>
<td>Standard deviation of weekly rates of change of effective exchange rate</td>
<td>X: significant negative and insignificant relationship.</td>
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<td>Quarterly (1976-1984)</td>
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<td>Quarterly (1975-</td>
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<tr>
<td>Study</td>
<td>Countries</td>
<td>Methodology</td>
<td>Results</td>
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<td>--------------------------------------------</td>
<td>----------------------------------------------</td>
<td>------------------------------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td>Kroner and Lastrapes (1993)</td>
<td>UK, U.S., Japan, France, West Germany</td>
<td>GARCH model</td>
<td>X: significant negative, significant positive and insignificant relationship.</td>
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<td></td>
<td>(multilateral trade)</td>
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<tr>
<td></td>
<td>Quarterly (1973-1990)</td>
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<tr>
<td>McKenzie and Brooks (1997)</td>
<td>Germany to U.S. (bilateral trade)</td>
<td>GARCH model</td>
<td>X: insignificant positive effect</td>
</tr>
<tr>
<td></td>
<td>Quarterly (1973-1992)</td>
<td></td>
<td>M: significant positive effect</td>
</tr>
<tr>
<td>Arize (1998)</td>
<td>Belgium, Denmark, Finland, France, Greece,</td>
<td>Moving standard deviation of</td>
<td>X: significant positive effect</td>
</tr>
<tr>
<td></td>
<td>Netherlands, Spain, Sweden (bilateral trade)</td>
<td>exchange rate</td>
<td>M: significant negative effect</td>
</tr>
<tr>
<td></td>
<td>Annually (1973-1995)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Daly (1998)</td>
<td>Japan to Australia, UK, Canada, France,</td>
<td>Moving average of the standard deviation (MASD) of the real exchange rate</td>
<td>X: significant positive effect</td>
</tr>
<tr>
<td></td>
<td>Germany, Italy, U.S. (Bilateral trade)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Quarterly (1978-1992)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>McKenzie (1998)</td>
<td>Australia to U.S., Japan, Germany, HK, New</td>
<td>ARCH and GARCH model</td>
<td>X and M: weak positive and</td>
</tr>
<tr>
<td></td>
<td>Zealand, Singapore, UK. (multilateral trade)</td>
<td></td>
<td>negative effects</td>
</tr>
<tr>
<td></td>
<td>Quarterly (1969-1995)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dell’ Ariccia</td>
<td>15 EU countries</td>
<td>Standard deviation of the</td>
<td>X and M:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Author(s)</td>
<td>Countries/Trade Description</td>
<td>Methodology</td>
<td>Findings</td>
</tr>
<tr>
<td>---------------------------</td>
<td>---------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>Doroodian (1999)</td>
<td>Indian, Korea, Malaysia (bilateral trade) Quarterlly (1973-1996)</td>
<td>GARCH model</td>
<td>X: significant negative effect</td>
</tr>
<tr>
<td>Sukar and Hassan (2001)</td>
<td>U.S. to Australia, Canada, Belgium, Germany, France, Italy, Japan, UK, Netherlands, HK, Korea, Singapore and Mexico (bilateral trade) Quarterly (1975-1993)</td>
<td>GARCH model</td>
<td>X: significant positive effect</td>
</tr>
<tr>
<td>Siregar and Rajan (2004)</td>
<td>Indonesia to Japan (aggregate trade) Quarterly (19802-1997)</td>
<td>MASD of real exchange rate and GARCH model</td>
<td>X and M: significant negative effect</td>
</tr>
<tr>
<td>Tenreyro</td>
<td>87 countries</td>
<td>Standard deviation of the</td>
<td>X: no significant</td>
</tr>
</tbody>
</table>
Data and Model

In the model considered here we argue that there are two primary determinants of export demand (Dornbusch, 1988; Hooper and Marquez, 1993). First, there is the foreign income variable, measuring the economic activity and the purchasing power of the trading partner country. Second, there is the relative price variable or the terms of trade (competitiveness factor). In addition, sharp gyrations in the foreign exchange markets after the collapse of the Bretton Woods system (Bird and Rajan, 2001) necessitate that we explicitly take into account exchange-rate volatility as another explanatory variable in the export-demand function. There were some factors that have interfered with the exchange rate volatility, such as Exchange Rate Mechanism, financial crisis in 1997 and the adoption of euro, three time dummies will be applied in our model and explained in detail below.

Our model can therefore be expressed as

\[ X_i = \alpha_0 + \alpha_2 Y_i + \alpha_3 p_i + \alpha_4 V_i + \alpha_5 D_i + \alpha_6 D_i^2 + \alpha_7 D_i^3 + \varepsilon_i \]  

(1)

where

- \( X_i \) is the natural logarithm of the UK’s aggregate export volume to country \( i \);
- \( Y_i \) is the natural logarithm of real GDP of country \( i \);
- \( p_i \) is the natural logarithm of the ratio of the domestic export price to the export price of country \( i \) or the terms of trade;
- \( V_i \) the volatility of the nominal or real exchange rate;
- \( D_i \) is the dummy variables to capture the 1992/1993 Exchange Rate Mechanism (ERM) crisis. The 1992/93 crisis of the EMS was viewed as a stop in the process of economic integration of the European countries. The purpose of the EMS was to reduce exchange rate volatility among member currencies to promote trade and economic convergence, and the ERM was actually successful in reducing both nominal and real exchange rate volatility (especially for the period 1987-1992). If the end of the ERM diminished exchange rate stability, a reduction in intra-EU trade could be expected. A dummy was constructed equal to 1 for pairs in which both countries are members of the ERM and 0 otherwise.
- \( D_i^2 \) is the dummy variable to capture the financial crisis from 1997 June to 1998 December. The financial crisis that erupted in Asia in mid-1997 led to sharp declines in the currencies, stock markets, and other asset prices of a number of Asian countries,
threatened these countries' financial systems and disrupted their real economies. It is a real
risk that market confidence may not recover for some time, which could imply significant
net outflows of foreign capital from many economies, as witnessed in the Asian crisis
countries, with prolonged depressive effects on trade and activity. The financial crisis of
1997 had severe effect not only in Asia, but also put pressure on world market. $D_{it}^3$ is set
equal to 1 if the trade partners suffered financial crisis (Indonesia, Malaysia, Philippines
and Thailand) in the period 1997-1998, and set to equal to 0 otherwise.

$D_{it}^3$ is the dummy variable to capture the changes in the exchange-rate regimes. It is set equal
to 1 for the countries (France, Germany and Italy) that start to use euro from 1999 January,
and set equal to 0 before this point. A distinctive aspect of this study is that the time dummy
is considered. This specification of the impact of the euro is important, as the EMU is still a
young phenomenon.

A major economic reason for the introduction of the euro was its supposedly positive
effect on intra-EMU (European Monetary Union) trade. As we expected, trade between
euro-zone countries has increased after the adoption of the euro since 1999. Trade with
non-euro countries grew less than trade with euro countries did, and the euro may have
diverted trade from non-euro countries. However, there is no certainty that, had the euro
not existed, trade with euro countries would not have grown more rapidly. By reducing the
existing uncertainty and risk within the euro-zone, it is possible that the stimulus to trade
created by the adoption of the euro affected negatively the performance of non-members.

Table 2 provides some descriptive statistics of the major variables used in estimation. It
gives the mean and the standard deviation of each variable. The means of bilateral exports
to G7 countries and real income of G7 countries are more than those of the Asia Four. It is
consistent with the truth that the UK exports to G7 countries take great account of total
exports. But the volatility of competitiveness (term of trade) of the Asian Four is
consistently greater than that of G7 countries. As for volatility of exchange rates, the mean
and standard deviation of Indonesia nominal exchange rate volatility are far greater than
others because Indonesia suffered severely from financial crisis of 1997. Since no
conclusion can be drawn by observing their descriptive statistics, and formal regression
analysis is required.

Table 2 Summary Descriptive Statistics for Major Variables in Regression (1)

<table>
<thead>
<tr>
<th>Mean &amp; Standard deviation of variables</th>
<th>$X_{it}^i$</th>
<th>$Y_{it}^i$</th>
<th>$p_{it}^i$</th>
<th>$n.vol_{it}^i$</th>
<th>$r.vol_{it}^i$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>14.763</td>
<td>6.518</td>
<td>1.099</td>
<td>0.013</td>
<td>0.032</td>
</tr>
<tr>
<td></td>
<td>(0.342)</td>
<td>(0.331)</td>
<td>(0.092)</td>
<td>(0.020)</td>
<td>(0.046)</td>
</tr>
<tr>
<td>France</td>
<td>16.489</td>
<td>5.880</td>
<td>1.122</td>
<td>0.013</td>
<td>0.016</td>
</tr>
<tr>
<td></td>
<td>(0.351)</td>
<td>(0.292)</td>
<td>(0.110)</td>
<td>(0.015)</td>
<td>(0.021)</td>
</tr>
<tr>
<td>Germany</td>
<td>16.706</td>
<td>6.199</td>
<td>0.832</td>
<td>0.083</td>
<td>1.044</td>
</tr>
<tr>
<td></td>
<td>(0.354)</td>
<td>(0.335)</td>
<td>(0.148)</td>
<td>(0.149)</td>
<td>(0.227)</td>
</tr>
<tr>
<td>Italy</td>
<td>15.765</td>
<td>5.690</td>
<td>0.988</td>
<td>0.055</td>
<td>0.010</td>
</tr>
<tr>
<td></td>
<td>(0.402)</td>
<td>(0.292)</td>
<td>(0.154)</td>
<td>(0.071)</td>
<td>(0.013)</td>
</tr>
<tr>
<td>Japan</td>
<td>14.879</td>
<td>8.257</td>
<td>0.965</td>
<td>0.234</td>
<td>0.039</td>
</tr>
<tr>
<td></td>
<td>(0.518)</td>
<td>(0.237)</td>
<td>(0.115)</td>
<td>(0.335)</td>
<td>(0.047)</td>
</tr>
<tr>
<td>U.S.</td>
<td>16.836</td>
<td>8.487</td>
<td>0.980</td>
<td>0.029</td>
<td>0.015</td>
</tr>
</tbody>
</table>
The Impact of the Volatility of Exchange Rates on the UK Aggregate Bilateral Exports to the G7 Countries and the Asian Four Countries

<table>
<thead>
<tr>
<th>Mean &amp; Standard deviation of variables</th>
<th>$X_t^i$</th>
<th>$Y_t^i$</th>
<th>$p_t^i$</th>
<th>$nvol_t^i$</th>
<th>$rvol_t^i$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(0.347)</td>
<td>(0.322)</td>
<td>(0.071)</td>
<td>(0.045)</td>
<td>(0.024)</td>
</tr>
<tr>
<td>Malaysia</td>
<td>13.551</td>
<td>9.714</td>
<td>1.076</td>
<td>0.065</td>
<td>0.106</td>
</tr>
<tr>
<td></td>
<td>(0.547)</td>
<td>(0.795)</td>
<td>(0.226)</td>
<td>(0.086)</td>
<td>(0.105)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>12.861</td>
<td>3.704</td>
<td>0.9724</td>
<td>2.422</td>
<td>0.214</td>
</tr>
<tr>
<td></td>
<td>(0.488)</td>
<td>(0.534)</td>
<td>(0.298)</td>
<td>(3.122)</td>
<td>(0.227)</td>
</tr>
<tr>
<td>Philippines</td>
<td>12.505</td>
<td>2.803</td>
<td>2.238</td>
<td>0.620</td>
<td>0.085</td>
</tr>
<tr>
<td></td>
<td>(0.543)</td>
<td>(0.388)</td>
<td>(1.274)</td>
<td>(0.628)</td>
<td>(0.111)</td>
</tr>
<tr>
<td>Thailand</td>
<td>13.104</td>
<td>3.464</td>
<td>1.467</td>
<td>0.112</td>
<td>0.068</td>
</tr>
<tr>
<td></td>
<td>(0.624)</td>
<td>(0.347)</td>
<td>(0.305)</td>
<td>(0.162)</td>
<td>(0.074)</td>
</tr>
</tbody>
</table>

Notes: Numbers in parenthesis are standard deviation. $nvol_t^i$ denotes nominal volatility; $rvol_t^i$ denotes real volatility.

Data

Trade Data

The UK’s export partners considered in this chapters can be broken down into two groups as follows: the members of G7 countries, Canada, France, Germany, Italy, Japan, US, and the developing Asian 4 Countries comprising Malaysia, Philippines, Thailand, and Indonesia. The time period covers 1990 January to 2006 December from the IMF Direction of Trade database. Quarterly GDP is converted to a monthly basis by using a quadratic interpolation method recommended by Goldstein and Khan (1978).

The theory of demand suggests that quantity of trade rather than value is the appropriate dependent variable. So the value series of exports is deflated by a measure of prices (UK’s export price) to obtain the dependent variable.

$$X_t^i = \frac{XVAL_t^i}{XP_t}$$

where $X_t^i$ is the volume of UK’s exports to country $i$, $XVAL_t^i$ is the value of exports to country $i$, and $XP_t$ is UK’s export price (2000=100). All monthly data are taken from the IMF’s Directions of Trade (DOT) and the IMF’s International Financial Statistics (IFS). Original quarter GDPs are from IFS.

Real income

Real GDP of country $i$ are considered as country $i$’s real income, which is nominal GDP deflated by the GDP deflator. We obtained the quarterly GDP and GDP deflator from IMF’s International Financial Statistics (IFS), and it is converted to monthly data (in US dollar) using a quadratic interpolation method recommended by Goldstein and Khan (1978). The volume of exports to the foreign country would be expected to increase as the real income of the foreign economy increases, $\alpha_2 > 0$.

Terms of trade (competitiveness factor)

The bilateral terms of trade is constructed as the ratio of the UK’s export price to country $i$’s export price. When real exchange rate increases, it indicates that the UK sterling appreciates and exports of the UK will decrease, the competitiveness of the UK will decline consequently. The real exchange rate of the UK pound against country $i$’s currency is
computed by multiplying the nominal exchange rate by relative prices:\[ RER_i^t = NER_i^t \times \frac{WPI_i}{WPI_t} \]

\( RER_i^t \) is the terms of trade with country \( i \), \( NER_i^t \) is the nominal exchange rate (country \( i \)’s currency per UK pound), \( WPI_i \) is the wholesale price index of UK, and \( WPI_t \) is the wholesale price index of country \( i \).

A rise in the terms of trade implies an appreciation of the sterling against other currencies and will cause the domestic goods to become less competitive than foreign goods, resulting in a fall in exports, \( \alpha_3 < 0 \). Export unit value was used for the countries whose WPI is not available. All these price indices are from *International Financial Statistics* (IFS).

Volatility index

Two important issues need to be highlighted when calculating the volatility index of the exchange rate. First is the use of nominal versus the real exchange rate. Second is the measurements used to calculate the volatility. All monthly data are from *International Financial Statistics* (IFS).

Nominal versus real exchange rate

The IMF (1984) suggests that we should consider the time dimension of the economic decisions when measuring exchange-rate volatility. In a relatively short sample period, fluctuations in the nominal exchange rate would have a significant effect on the traders’ decision because all cost and prices are relatively rigid and therefore known. As for a relatively long observation period, prices as well as nominal exchange rates are unknown. For our purposes, we generate both the nominal and real exchange-rate series of exchange-rate volatilities.

Volatility measurement

The first problem in estimating the effect of exchange rate uncertainty on trade is choosing an appropriate variable to represent instability. The literature has used a number of measures of exchange rate volatility and variability as a proxy for risk. The volatility measure that we use is generated from a generalized autoregressive conditional heteroskedastic (GARCH) process. This process permits us to exploit patterns and persistence in the behavior of volatility. The measure of both real and nominal exchange rate we employ is a GARCH specification as follows:

\[
\ln RER_t = \alpha_0 + \alpha_1 \ln RER_{t-1} + \epsilon_t \quad (2a)
\]

where

\[
\epsilon_t \sim N(0,h_t) \quad (2b)
\]

\[
h_t = \alpha + \beta \epsilon_{t-1}^2 + \gamma h_{t-1} + u_t \quad (2c)
\]

where \( u_t \) is a white noise process. The conditional variance equation (2c) above is a function of three terms: (2a) the mean \( \alpha \); (2b) news about volatility from the previous period, measured as the lag of the squared residual from the mean equation, \( \epsilon_{t-1}^2 \) (the ARCH term); and (2 c) the last period’s forecast error variance, \( h_{t-1} \) (the GARCH term). The GARCH procedure allows us to capture the time-varying conditional variance as a parameter generated from a time series model of the conditional mean and variance of the exchange rate.
This model captures unexpected volatility, while other models such as the standard deviation deal with expected volatility. Utilizing a GARCH model to capture the conditional variance of real exchange rate is appropriate for the flexible exchange rate period since the post-Bretton Woods era has generated more volatile nominal and real exchange rates than the fixed exchange rate regime (Caporale and Doroodian, 1994). The applicability of such effects in terms of the export demand function is also clear. If traders need to forecast the exchange rate to estimate their stream of profits from trading, their trading contracts will depend on the forecast of the exchange rate and uncertainty regarding the accuracy of the forecasts.

In the GARCH (1, 1) model, we can observe the close correlation between the nominal and real exchange rate volatilities in Figure 6. It seems that real and nominal exchange rate volatilities are virtually the same and the results are consistent with the argument by McKenzie (1999) that ‘whilst the distinction between real and nominal exchange rate volatility has generated a lot of debate… empirical results suggest that this distinction does not impact significantly on the results achieved.’

Figure 6 Nominal and Real Exchange Rate Volatility

From the Figure 7 (A)-(F), it is interesting to note here that the results for the real and nominal exchange rate are generally consistent with each other for most countries.

For the country (A)-(F), both the nominal and real exchange-rate volatilities against the UK pound show that there are a few hikes in the beginning of the 1990s and beginning of the 2000s, which may result from the Exchange Rate Mechanism (ERM) crisis at 1992/1993 and adopting of the euro in 1999. As for the East-Asia countries (G)-(J), we find that the exchange rate hikes occur after 1997 financial crisis for the Asia Four countries.
Figure 7. GARCH (1, 1) Volatility of Both Nominal and Real Exchange Rates

Canada nominal and real exchange-rate volatility against the UK pounds
France nominal and real exchange-rate volatility against the UK pounds
Italy nominal and real exchange-rate volatility against the UK pounds
Japan nominal and real exchange-rate volatility against the UK pounds
Germany nominal and real exchange-rate volatility against the UK pounds
US nominal and real exchange-rate volatility against the UK pounds
Malaysia nominal and real exchange-rate volatility against the UK pounds
Philippines nominal and real exchange-rate volatility against the UK pounds
Indonesia nominal and real exchange-rate volatility against the UK pounds
Thailand nominal and real exchange-rate volatility against the UK pounds

Methodology

In order to provide valid statistical inference, it is important to address the time-series properties of the variables used because all data series considered must be of the same order of integration to avoid problems of spurious relationships and incorrect inferences (Phillips, 1986; Ohanian, 1988). If the order of integration of the variables is not verified, there is a danger that evidence of simultaneous correlations rather than long-run relationships may be found. To infer causal long-run relationships between non-stationary data requires the application of cointegration analysis. As a preliminary step to this analysis it is, therefore, necessary to test the stationarity of the variables. To get robust results of the order of variables, results of both ADF and PP tests are provided.

If all variables are of the same order of integration, for example $I(1)$, then it is typically true that any linear combination of the variables will also be $I(1)$. However, if a linear combination of the $I(1)$ variables is $I(0)$, then the variables are described as ‘cointegrated’ meaning that an equilibrium linear relationship exists which maintains a stationary difference between the variables in question in the long run (In and Menon, 1996).

According to the Granger representation theorem (Engle and Granger, 1987), suppose there are two variables, $X_t, w_t$, the error correction model or equilibrium correction model can be written as

$$
\Delta X_t = \beta_1 w_t + \beta_2 (X_{t-1} - \gamma w_{t-1}) + u_t
$$

where the error correction term $(X_{t-1} - \gamma w_{t-1})$ with a lag will be $I(0)$ even though the constituents are $I(1)$. It would be implausible for the term to appear without any lag for this would imply that $X_t$ changes between $t-1$ and $t$ in response to disequilibrium at time $t$. $\gamma$ defines the long-run relationship between $X_t$ and $w_t$. $\beta_1$ describes the short-run relationship between changes in $X_t$ and changes in $w_t$. $\beta_2$ describes the speed of adjustment back to equilibrium, it measures the proportion of last period’s equilibrium error that is corrected for.

$u_t$ is white noise error.

Inclusion of equilibrium-correction terms allows for the adjustment of changes in variables in the vector $X_t$, to their long-run equilibrium values to be identified, providing information on the speed of adjustment to disequilibrium errors. When an equilibrium-correction term has a statistically significant coefficient and displays the appropriate (i.e. negative) sign, the hypothesis of an equilibrium relationship between the variables in the cointegrating equation is valid. Failing to take account of cointegration between the variables would lead to misspecification in the dynamic structure underlying the model of interest (Arize, 1995).

A general-to-specific modelling exercise is used to obtain parsimonious dynamic models for changes in aggregate exports $\Delta X_t$. The equilibrium-correction term generated from the Johansen cointegration procedures is included as an additional regressor to avoid the loss of potentially relevant information.
Empirical Results

Table 3 presents the results for the commonly used ADF and PP unit-root test. All variables are found to be stationary at first difference $I(1)$ variables, except the volatility index. The volatility indices of Canada, France, Germany, Italy, Japan and US are all $I(0)$, and those of Malaysia, Indonesia, Philippines nominal rate and Thailand real rate are stationary at first difference $I(0)$ variables. For these volatility variables are not integrated of the same order as the other variables, they can not enter into a long-run cointegrating relationship that explains the UK exports to these countries.

Table 3. Unit Root Test for Stationarity

<table>
<thead>
<tr>
<th>Country</th>
<th>Series</th>
<th>Level/first difference</th>
<th>Test type</th>
<th>ADF test</th>
<th>PP test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>ADF statistics</td>
<td>Lag</td>
</tr>
<tr>
<td>UK</td>
<td>$X_{i}^{\text{Canada}}$</td>
<td>Level</td>
<td>c and t</td>
<td>-1.796</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1st difference</td>
<td>c</td>
<td>11.393*</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$X_{i}^{\text{France}}$</td>
<td>Level</td>
<td>c</td>
<td>-0.902</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1st difference</td>
<td>c</td>
<td>5.037**</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$X_{i}^{\text{Germany}}$</td>
<td>Level</td>
<td>c and t</td>
<td>-1.309</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1st difference</td>
<td>c</td>
<td>4.717**</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$X_{i}^{\text{Italy}}$</td>
<td>Level</td>
<td>c and t</td>
<td>-2.562</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1st difference</td>
<td>c</td>
<td>4.276**</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$X_{i}^{\text{Japan}}$</td>
<td>Level</td>
<td>c and t</td>
<td>-2.164</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1st difference</td>
<td>c</td>
<td>15.021*</td>
<td>2</td>
</tr>
<tr>
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<td></td>
<td></td>
<td></td>
<td>**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$X_{i}^{\text{US}}$</td>
<td>Level</td>
<td>c and t</td>
<td>0.725</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1st difference</td>
<td>c</td>
<td>10.005*</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$X_{i}^{\text{Indonesia}}$</td>
<td>Level</td>
<td>c</td>
<td>0.071</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1st difference</td>
<td>c</td>
<td>11.514*</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>**</td>
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The Impact of the Volatility of Exchange Rates on the UK Aggregate Bilateral Exports to the G7 Countries and the Asian Four Countries

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The Impact of the Volatility of Exchange Rates on the UK Aggregate Bilateral Exports to the G7 Countries and the Asian Four Countries

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1st difference: c 16.011** 0 16.017* **

Note:
95 % critical values for ADF statistic with intercept is -2.87; with intercept and trend is -3.42. 95 % critical values for PP statistic with intercept is -2.87; with intercept and trend is -3.42.

The volatility indices of Malaysia, Indonesia, Philippines nominal rate and Thailand Real rate are stationary at first difference $I(0)$ variables. The test statistics are not reported here.

c denotes constant; and t denotes trend.

*** Significant at 1% level.
** Significant at 5% level.
* Significant at 10% level.

**Johansen Co-integration Test**

To determine the number of cointegrating vectors, a vector autoregression (VAR) was used with lags of each variable chosen on the basis of AIC criteria and accepted once residuals were found to be white noise. Table 4 reports both trace and maximum eigenvalue statistics of the Johansen co-integration test procedure and indicates that there is evidence of a unique statistically significant long-run cointegrating relationship between exports, GDP, competitiveness at 5 percent level of significance.

The null of zero cointegrating vectors ($r=0$) is rejected at the 5% level while the null hypothesis of at most one cointegrating vector ($r \leq 1$) cannot be rejected based on the maximum eigenvalue statistic. As Johansen and Juselius (1990) consider the maximum eigenvalue test to produce more clear-cut results, the hypothesis of one unique cointegrating vector is accepted.

Table 4 Co-integration Test Result

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<td>0 &lt; 3</td>
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(A) Measurement for real exchange rate volatility: GARCH

UK export to Canada

| | 72.85*** | 21.63 | 8.22 | 0.14 | 46.25*** | 18.01 | 8.08 | 0.14 |

UK export to France

| | 62.36*** | 24.75 | 15.85 | 0.50 | 37.61** | 18.04 | 12.35 | 0.49 |

UK export to Germany

| | 67.88*** | 21.81 | 14.01 | 2.66 | 36.08*** | 15.13 | 10.01 | 2.66 |

UK export to Italy

| | 69.62*** | 20.65 | 14.52 | 1.75 | 31.97** | 12.04 | 7.33 | 1.75 |

UK export to | 41.21** | 21.05 | 8.12 | 0.73 | 25.15** | 13.92 | 7.39 | 0.73 |
The Impact of the Volatility of Exchange Rates on the UK Aggregate Bilateral Exports to the G7 Countries and the Asian Four Countries

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(B) Measurement for nominal exchange rate volatility: GARCH

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<td>2.64</td>
<td>36.15***</td>
<td>9.64</td>
</tr>
</tbody>
</table>

Note:
(1) $r$ denotes the number of co-integrating vectors.
(2) 95% critical value for the trace statistics
Null: the No. of cointegration | Critical Value
None | 47.2
At most one | 29.7
At most two | 15.4
At most three | 3.8

95% critical value for the Max-eigen statistics
Null: the No. of cointegration | Critical Value
None | 27.1
At most one | 21
At most two | 14
At most three | 8

(3) Critical values are taken from Osterwald-Lenum (1992:469). An unrestricted constant and trend were included. Four lags were included which was sufficient to ensure white noise residuals.

(4) *** Significant at 1% level.
** Significant at 5% level.
* Significant at 10% level.

The cointegrating relationship with the predicted a priori signs on the elasticities, normalised
The impact of the volatility of exchange rates on the UK aggregate bilateral exports to the G7 countries and the Asian Four countries

with respect to exports – denoted \( X'_t \) can be interpreted as the long-run country \( i \)'s demand function for UK exports as shown in Table 5.

As the volatility variables of Canada, France, Germany, Italy, Japan and US are not integrated of the same order as the other variables, neither real nor nominal volatility can enter into the long-run cointegrating relationship that explains UK exports to country \( i \).

The imposition of a unit coefficient restriction on country \( i \)'s GDP varies from 0.66 to 1.86. A positive income elasticity of demand reveals that the goods exported from the UK to country \( i \) are normal goods but the size of the elasticity could be interpreted to indicate that both necessities and luxuries were exported. The coefficients on GDP of Canada, France, Germany, Italy, Japan and US are all positive and greater than one, indicating that UK exports to these developed countries are luxury goods. We can also observe that the coefficient on GDP of Thailand is 1.86 greater than all countries and indicating that luxury goods are exporting to Thailand. But the coefficients on GDP of Indonesia, Malaysia and Philippines are all less than one, indicating that UK exports to these East Asia typical developing countries are normal goods.

The competitiveness elasticity displays the expected negative sign indicating the important role of UK relative exporting prices in explaining UK exports to country \( i \). The coefficients on volatility are all negative for UK exports to Indonesia, Malaysia, Philippines and Thailand and vary from -0.42 to -21.81, indicating that the volatility of exchange rate plays negative role in UK exports. It is also consistent with the past literature that the magnitude of the effects of volatility varies with countries.

Table 5. Estimates of Long-run Cointegrating Vectors

<table>
<thead>
<tr>
<th>Equation</th>
<th>( X'_t )</th>
<th>( Y'_t )</th>
<th>( RER'_t )</th>
<th>( V'_t )</th>
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<td>(A) Measurement for real exchange rate volatility: GARCH (1,1)</td>
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<td>UK export to Canada</td>
<td>1</td>
<td>1.13***</td>
<td>-</td>
<td>1.53**(2.05)</td>
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<td>(3.46)</td>
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<td>1.57* (1.89)</td>
<td>1.43*** (2.83)</td>
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<td>1.18*** (5.84)</td>
<td>0.89** (2.00)</td>
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<tr>
<td>UK export to Italy</td>
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<td>1.86*** (7.71)</td>
<td>1.52*** (7.51)</td>
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<tr>
<td>UK export to Japan</td>
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<td>1.62*** (5.60)</td>
<td>1.03*** (3.12)</td>
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<tr>
<td>UK export to US</td>
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<td>-1.86*** (2.82)</td>
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<tr>
<td>UK export to Indonesia</td>
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<td>0.85*** (3.88)</td>
<td>1.57*** (3.99)</td>
<td>-0.42*** (5.13)</td>
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<tr>
<td>UK export to Malaysia</td>
<td>1</td>
<td>0.92*** (5.90)</td>
<td>-1.60* (1.92)</td>
<td>3.37*** (4.95)</td>
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</table>
The Impact of the Volatility of Exchange Rates on the UK Aggregate Bilateral Exports to the G7 Countries and the Asian Four Countries

<table>
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<th>0.76*** (2.98)</th>
<th>1.29*** (4.64)</th>
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<tr>
<td>UK export to Philippines</td>
<td>1</td>
<td>1.89*** (3.52)</td>
<td>-1.92* (1.85)</td>
<td>5.73*** (6.06)</td>
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<tr>
<td>(B) Measurement for nominal exchange rate volatility: GARCH (1,1)</td>
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<tr>
<td>UK export to Thailand</td>
<td>1</td>
<td>0.76 (0.33)</td>
<td>-1.28 (0.91)</td>
<td>-0.39*** (4.65)</td>
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<td>UK export to Indonesia</td>
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<td>0.91*** (4.03)</td>
<td>-1.52** (2.01)</td>
<td>-2.43** (2.03)</td>
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<td>UK export to Malaysia</td>
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<td>0.66** (2.07)</td>
<td>-1.20** (2.14)</td>
<td>21.81*** (6.35)</td>
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<tr>
<td>UK export to Philippines</td>
<td>1</td>
<td>1.39*** (3.42)</td>
<td>2.01*** (4.11)</td>
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</tr>
</tbody>
</table>

Note:
(1) Figures in parenthesis indicate t-statistics;
(2) Since both the volatility variables of Canada, France, Germany, Italy, Japan and US are I(0), neither real nor nominal volatility can enter into a long-run cointegrating relationship.

**Equilibrium-Correction Model**

If the time series variables of $X_t^i$, $Y_t^i$, $rer_t^i$ and $V_t^i$ have unit roots, then one needs to take the first difference of the variables (as in Eq. 3) in order to obtain a stationary series:

$$
\Delta X_t^i = \alpha_1 + \alpha_2 \Delta Y_t^i + \alpha_3 \Delta rer_t^i + \alpha_4 \Delta V_t^i + \alpha_5 D_t^1 + \alpha_6 D_t^2 + \alpha_7 D_t^3 + \epsilon_t
$$

Eq. 3 ignores any reference to the long-run aspects of decision-making. That is, this procedure of differencing results in a loss of valuable long-run information in the data (Maddala, 1992). The theory of cointegration address this issue by introducing an error-correction (EC) term. The EC term lagged one period (i.e. $EC_{t-1}$) integrates short-run dynamics in the long-run export demand function. This leads us to the specification of a general error correction model (ECM):

$$
\Delta X_t^i = \beta_1 + \sum_{m=1}^{n} \beta_2^i \Delta X_{t-m}^i + \sum_{m=0}^{n} \beta_3^i \Delta Y_{t-m}^i + \sum_{m=0}^{n} \beta_4^i \Delta rer_{t-m}^i + \sum_{m=0}^{n} \beta_5^i \Delta V_{t-m}^i + \beta_6 \epsilon_{t-m} + \epsilon_t
$$

where

- $EC_{t-1}$ is error-correction term lagged one period;
- $V_{t-m}^i$ is either nominal volatility or real volatility;
- $D_t^1$ is the dummy variable to capture the ERM crisis in the period 1992-1993;
- $D_t^2$ is the dummy variable to capture the financial crisis from 1997 June to 1998 December.
- $D_t^3$ is the dummy variable to capture the euro period 1999-now;

Following Hendry’s (1995) general-to-specific modelling approach, first, four lags of the...
explanatory variables are included, and then gradually the insignificant variables are eliminated. Regressions were run to examine the impacts of real and nominal volatility separately, as including both in one regression would imply accounting twice for the impact of nominal volatility. After experimenting with the general form of the ECM (Eq. 4.), the model shown in Table 6 is found to fit the data well. Diagnostic test results are all insignificant with significance level (p-value), indicating the evidence of serial noncorrelation, homoscedasticity, no specifications errors, structural stability and normality of the residuals.

Having provided evidence supporting the adequacy of the estimated equations, we can make the following five observations regarding the estimates obtained.

First, the estimated coefficient of the error correction term is statistically significant in each of the ten cases and is always negative, as expected. These findings support the validity of an equilibrium relationship among the variables in each cointegrating equation. This implies that overlooking the cointegrating relationships among the variables would have introduced misspecification in the underlying dynamic structure. It also tells us that the speed of adjustment is rather slow.

Secondly, having examined separately the impact of both real and nominal volatility on UK exports, we are able to conclude that, ‘the estimated coefficients tell us that the distinction between nominal and real exchange rate volatility does not impact significantly on the results achieved’ (McKenzie, 1999).

Thirdly, the relative export price and real GDP emerge from our estimation as significant determinants of the export demand function for the UK. The income and price elasticity estimates, in general, are in line with the Goldstein-Khan ranges of \([1.0, 2.0]\) for typical income elasticity and \([-0.50, -1.0]\) for typical price elasticity (Goldstein and Khan, 1985).

Fourthly, we can draw some conclusions that the ERM before 1992/1993 diminished the volatility of exchange rates for ERM member countries, and stimulated trade flows internally and worldwide; when the ERM collapsed, the volatility of exchange rate of countries within ERM rose. The estimated coefficients of \(D_1^t\) (the collapse of ERM) show negative significant signs for most countries except Indonesia, indicating that the collapse of ERM has strong negative impact on the UK exports to these typical developed and developing countries.

The East-Asia financial crisis in 1997 severely hit the trade flows of Asia-Pacific countries’ and even damped the trade flow worldwide. It seems that the \(D_2^t\) (1997 financial crisis) has had a negative impact on the UK exports in Asia developing countries, especially Indonesia, Malaysia, Philippines and Thailand and the magnitude of the impact may vary with trading partners. The effects on Indonesia and Thailand are greater than others.

The coefficients of the fixed exchange rate regime with euro \(D_3^t\) show that trading between the UK and France, Germany and Italy has been positively improved in the period 1999-2007. Though the UK is still a non-euro member, there is more positive role of adopting euro for UK exports to these euro countries. Still, the cumulative time effect of the euro is significant in the euro countries and should be acknowledged when other countries ponder whether or not to adopt the euro.
Fifth, and foremost, both real and nominal volatility appears with either a statistically negative or insignificant results across countries. Hence, evidence is found of a role for exchange rate risk in the behaviour of UK exporters trading with 10 typical developed and developing countries.

Table 6.A. Estimated Error-correction Model (1990:m1-2007:m12)

<table>
<thead>
<tr>
<th>Dependent variables $\Delta X_i$</th>
<th>Country</th>
<th>Canada</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>Japan</th>
<th>US</th>
<th>Malaysia</th>
<th>Indonesia</th>
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<td>$EC_{i-1}$</td>
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<td>(2.63)</td>
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<td>$\Delta EX_{i,m}$</td>
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<td>0.53</td>
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<td>0.56</td>
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Dependent variables $\Delta X_t$

**Panel A: estimation with real exchange rate volatility**

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<th>$D_t^2$</th>
<th>$D_t^3$</th>
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<td>$D_t^1$ (ERM)</td>
<td>-0.08 (0.65)</td>
<td>-0.05 (3.31)</td>
<td>-0.01 (2.10)</td>
</tr>
<tr>
<td></td>
<td>-0.06 (1.71)</td>
<td>-0.03 (1.76)</td>
<td>-0.01 (2.10)</td>
</tr>
<tr>
<td>$D_t^2$ (crisis)</td>
<td>-0.06 (1.91)</td>
<td>-0.47 (1.77)</td>
<td>-0.05 (2.01)</td>
</tr>
<tr>
<td>$D_t^3$ (euro)</td>
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<td>0.01 (2.12)</td>
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<table>
<thead>
<tr>
<th>$R^2$</th>
<th>DW</th>
<th>Serial corr</th>
<th>HET</th>
<th>Normality</th>
<th>RESET</th>
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</tr>
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<tr>
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<td>0.18</td>
<td>0.39</td>
<td>0.26</td>
</tr>
<tr>
<td>0.77</td>
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<td>0.18</td>
<td>0.17</td>
<td>0.19</td>
</tr>
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<td>0.19</td>
<td>0.19</td>
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<td>0.67</td>
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<td>0.18</td>
<td>0.26</td>
<td>0.15</td>
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<tr>
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<td>0.13</td>
<td>0.67</td>
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</table>

Note: Figures in parenthesis are the t-statistics.
The number in brackets after the coefficient denote lag of the variable.
Only significance level (p-value) is reported for diagnostic tests.

$D_t^1$ is the ERM crisis in the period 1992-1993.

$D_t^2$ is the 1997 financial crisis.

$D_t^3$ is the period of 1999 m1-2007 m12 when euro being used.
## Table 6.B. Estimated Error-correction Model (1990:m1-2007:m12)

### Dependent variables $\Delta X_{i}^{t}$

**Panel A: estimation with nominal exchange rate volatility**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Country</th>
<th>Canada</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>Japan</th>
<th>US</th>
<th>Malaysia</th>
<th>Indonesia</th>
<th>Philippins</th>
<th>Thailand</th>
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<td>-0.01</td>
<td>-0.02</td>
<td>-0.15</td>
<td>-0.02</td>
<td>-0.35</td>
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<td>-0.23</td>
<td>-0.02</td>
<td>-0.05</td>
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<tr>
<td></td>
<td>(1.78)</td>
<td>(1.97)</td>
<td>(2.39)</td>
<td>(2.96)</td>
<td>(2.33)</td>
<td>(4.92)</td>
<td>(2.70)</td>
<td>(3.80)</td>
<td>(3.66)</td>
<td>(2.20)</td>
<td>(3.43)</td>
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<td>0.53(1)</td>
<td>-0.66(1)</td>
<td>0.52(1)</td>
<td>-0.80(1)</td>
<td>-0.21(1)</td>
<td>-0.62(1)</td>
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<td>-0.48(1)</td>
<td>-0.73(1)</td>
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</tr>
<tr>
<td></td>
<td>(6.87)</td>
<td>(8.25)</td>
<td>(10.21)</td>
<td>(7.06)</td>
<td>(12.30)</td>
<td>(2.68)</td>
<td>(9.32)</td>
<td>(6.80)</td>
<td>(6.42)</td>
<td>(11.5)</td>
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<td>$\Delta EX^{t}_{m}$</td>
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<td>0.44(2)</td>
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<td>0.47(2)</td>
<td>-0.42(2)</td>
<td>-0.32(2)</td>
<td>-0.23(2)</td>
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<tr>
<td></td>
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<td>(7.44)</td>
<td>(6.28)</td>
<td>(8.11)</td>
<td>(4.88)</td>
<td>(5.76)</td>
<td>(3.89)</td>
<td>(3.09)</td>
<td>(7.19)</td>
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</tr>
<tr>
<td>$\Delta EX^{t}_{m}$</td>
<td>0.22(3)</td>
<td>0.15(3)</td>
<td>-0.45(3)</td>
<td>0.31(3)</td>
<td>0.34(3)</td>
<td>-0.36(3)</td>
<td>-0.15(3)</td>
<td>-0.12(3)</td>
<td>-0.42(3)</td>
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<tr>
<td></td>
<td>(3.11)</td>
<td>(2.20)</td>
<td>(6.14)</td>
<td>(4.28)</td>
<td>(4.15)</td>
<td>(4.98)</td>
<td>(1.94)</td>
<td>(1.72)</td>
<td>(5.74)</td>
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<tr>
<td>$\Delta EX^{t}_{m}$</td>
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<td>0.14(4)</td>
<td>-0.33(4)</td>
<td>0.19(4)</td>
<td>0.16(4)</td>
<td>-0.19(4)</td>
<td>-0.12(3)</td>
<td>-0.14(3)</td>
<td>-0.32(4)</td>
<td>-0.36(4)</td>
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<tr>
<td></td>
<td>(3.22)</td>
<td>(2.69)</td>
<td>(5.19)</td>
<td>(2.50)</td>
<td>(2.47)</td>
<td>(3.05)</td>
<td>(2.50)</td>
<td>(3.92)</td>
<td>(2.42)</td>
<td>(4.22)</td>
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<tr>
<td>$\Delta Y^{t}_{m}$</td>
<td>1.24(1)</td>
<td>1.06(1)</td>
<td>1.51(2)</td>
<td>1.36(3)</td>
<td>1.07(2)</td>
<td>1.23(3)</td>
<td>1.11(1)</td>
<td>1.25(2)</td>
<td>1.39(3)</td>
<td>1.45(1)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2.11)</td>
<td>(2.25)</td>
<td>(2.41)</td>
<td>(1.93)</td>
<td>(2.33)</td>
<td>(2.24)</td>
<td>(2.01)</td>
<td>(3.29)</td>
<td>(3.92)</td>
<td>(1.92)</td>
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<tr>
<td>$\Delta P^{t}_{m}$</td>
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<td>0.55(2)</td>
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<td>0.80(2)</td>
<td>-0.82(1)</td>
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<td>-0.46(4)</td>
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<td>(1.98)</td>
<td>(1.78)</td>
<td>(2.31)</td>
<td>(2.38)</td>
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<td>(2.27)</td>
<td>(2.13)</td>
<td>(2.14)</td>
<td>(4.02)</td>
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<tr>
<td>$\Delta P^{t}_{m}$</td>
<td>-0.42(3)</td>
<td></td>
<td></td>
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<tr>
<td>mvol$^{t}_{m}$</td>
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<td>-0.04</td>
<td>-0.08</td>
<td>-0.01</td>
<td>-0.06</td>
<td>-0.04</td>
<td>-0.05</td>
<td>-0.08</td>
<td>-0.05</td>
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<tr>
<td></td>
<td>(1.89)</td>
<td>(2.56)</td>
<td>(1.96)</td>
<td>(2.31)</td>
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<td>(1.79)</td>
<td>(2.20)</td>
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<tr>
<td>$D^{t}_{ER}$</td>
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<td>-0.05</td>
<td>-0.03</td>
<td>-0.08</td>
<td>-0.04</td>
<td>-0.10</td>
<td>0.02</td>
<td>-0.05</td>
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The Impact of the Volatility of Exchange Rates on the UK Aggregate Bilateral Exports to the G7 Countries and the Asian Four Countries
The Impact of the Volatility of Exchange Rates on the UK Aggregate Bilateral Exports to the G7 Countries and the Asian Four Countries

<table>
<thead>
<tr>
<th>Dependent variables</th>
<th>ΔX_t^i</th>
<th>Panel A: estimation with nominal exchange rate volatility</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(0.59)  (2.57)  (1.38)  (1.98)  (1.69)  (1.69)  (1.16)  (1.83)  (1.33)  (2.32)</td>
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<tr>
<td>d_t^i (crisis)</td>
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<td></td>
</tr>
<tr>
<td>d_t^i (euro)</td>
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</tr>
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<td>HET</td>
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<td>0.19</td>
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<td>Normality</td>
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<td>0.18</td>
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<td>RESET</td>
<td>0.16</td>
<td>0.27</td>
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Note: Figures in parenthesis are the t-statistics. The number in brackets after the coefficient denote lag of the variable. Only significance level (p-value) is reported for diagnostic tests.

d_t^i is the ERM crisis in the period 1992-1993.

d_t^i is the 1997 financial crisis.

d_t^i is the period of 1999 m1-2007 m12 when euro being used.
The Impact of the Volatility of Exchange Rates on the UK Aggregate Bilateral Exports to the G7 Countries and the Asian Four Countries

Conclusion

This paper has sought to shed light on the relationship between exchange-rate volatility and the UK bilateral aggregate exports to other G7 members and developing Asia Four countries from 1990 to 2006. The effect of both nominal and real exchange rate risk on UK has been examined using GARCH, cointegration and equilibrium-correction techniques.

As argued by McKenzie (1999), we find empirical support that the distinction between nominal and real exchange rate volatility has no significant impact on our empirical results. Our estimates rule out volatility of real and nominal exchange rate with G7 countries since all these series are $I(0)$. Thailand (nominal exchange rate) and Philippines (real exchange rate) as explanatory variables in the long-run export demand functions. The estimated equilibrium-correction equation reveals that both short-run real and nominal volatility is a determinant of changes in total UK aggregate bilateral exports. But we find that there is still no consensus result on the impact of short-run volatility on UK exports. The significant negative coefficients of both real and nominal volatility on UK exports vary from -0.02 to -0.08, indicating that if real volatility increases by 1 percent, this would have the effect of reducing UK exports to countries by 0.02-0.08. Hence, while we can conclude from this work that the net effect of volatility on real UK exports to countries is negative in the short run, it may vary with export partners and can not be classified as a large determinant of short run changes in UK exports. We also find that the ERM crisis and 1997 financial crisis have an adverse effect on the UK exports to most countries.

As volatility has a negative short-run impact on UK exports the question arises as to whether attempts to reduce such risk may be required. A dummy for the fixed exchange rate regime adopting of the euro has been added into the estimation. We find the positive significant coefficients of exports from the UK to member of euro countries vary from 0.01 to 0.04, but the magnitude of coefficients are lower than ERM crisis in 1992/1993 and financial crisis in 1997. Though the UK is still a non-euro member, there is more positive role of euro in UK exports to these euro countries.

The implication of these results is that empirical analysis is necessary to identify the nature of the relationship between volatility and trade for different countries or sectors. Most studies to date, including this paper, have focused on the effects of volatility on aggregate trade flows, ignoring potentially different effects that may be observed at a more disaggregated level of analysis. The disaggregated focus is appealing because exchange rate risk may affect sectors differently, so that aggregate effects may cloud the effects in individual sectors, or perhaps cancel out different effects across sectors which would otherwise provide information as to how individual sectors are affected by exchange rate volatility. Further research in this area should look at more disaggregated data. The volatility of the exchange rate may be more sensitive when disaggregated data is used and have a different impact across industry sectors.

References are omitted due to space considerations but may be had via the author.
What You Didn’t Know About Thai Football – It’s Made Of War Elephants!

This paper goes beyond the stereotype of Thailand as being all about sex tourism, zero tolerance to drugs mules (capital punishment), murder capital of Southeast Asia and a non entity in the field of economic growth and development. Taking the purview of sports and economic development, the paper argues that the game of football is huge in Thailand and the War Elephants, the Thai national football team, are fast becoming a force to reckon with in the ASEAN (Association of southeast Asian Nations) region. At the recently concluded Suzuki Cup, a biennial football competition organized by the ASEAN Football Federation (AFF) and accredited by FIFA, the Thailand’s talismanic forward, Suphawut Thueanklang’s spectacular strike against Costa Rica was not only declared Goal of the tournament, but also eclipsed Brazilian Falcao’s fairy tale equaliser for Brazil in their 3-2 final win over Spain, and Ricardinho’s spectacular overhead kick against Italy.\textsuperscript{xlv} Drawing upon official statistics and unreported sectoral developments, the paper, in its exploratory form, challenges marketing scholars to devote time in advancing the debate as to whether Thailand can “live down its past.” By so doing the paper suggests, albeit tentatively, that Thailand, one of the 10 ASEAN countries, might just have charted a path to its future on the global marketing stage through football.

Keywords: ASEAN Football Federation, AFF Suzuki Cup, Football, Thailand

ASEAN (Association of southeast Asian Nations) Countries

There are ten countries that make up ASEAS: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. Starting with Brunei Darussalam, it is an oil rich sultanate that obtained independence in 1984. It offers tourists grand mosques, river journeys and virgin rainforests that cover 70% of country. Located on the island of Borneo, it is one of the smallest nation in ASEAN covering just 5,765 square kilometres. Brunei Darussalam is a sovereign, independent, democratic Islamic monarchy.

Cambodia is at the frontier of tourism. It has a rich culture dating back many centuries when the Angkor Civilisation was the region's most developed. The 9th century Angkorian temples have intrigued archaeologists and fascinated tourists since being rediscovered in 1860. They remain one of the world's great ancient wonders and the jewel of them all, Angkor Wat, is the world's largest religious monument. Indonesia is a vast and beautifully diverse country consisting of more than 17,000 islands, of which only about 6,000 are inhabited, stretching more than 5,000 kms between the Australia and Asia continental main island and dividing the Pacific and Indian Oceans on the Equator. Indonesia offers the blend of scenic beauty, flora
and fun, culture and marine parks. The main island of Java is the most populous and where
the capital city, Jakarta, located. Jakarta is home to millions of people, a varied blend of
shops, good museums, great nightlife, nationalistic monuments and bustling port of Old
Batavia. The cultural capital of Yogyakarta is relaxed and offers a window to traditional arts
and crafts.

**Lao People's Democratic Republic (PDR)** is the only landlocked ASEAN nation as well as
the least visited countries in the world. Being isolated for many years has meant that Lao
PDR retains a remarkable serenity and timeless charm. The country is mountainous, making
travel difficult with limited internal flight and adventurous travel along Mekong River. The
capital, Vientiane, is small (140,000) charming and picturesque, sitting on the banks of the
Mekong. It contains some colourful and sacred pagodas, fascinating museums, wide
boulevards and attractions like Patuxai, Vientiane's Arc de Triomphe. The border crossing to
Thailand and the Friendship Bridge are at Thanaleng. Budha Park here is a bizarre collection
of concrete religious icons.

**Malaysia** lies at the heart of Southeast Asia. It has been described as “a tropical paradise of
immense charm […] a veritable treasure trove of diverse cultures and hospitable people,
exotic cuisine, fascinating festivals, quaint villages and modern skylines.” Bordered by
Thailand to the north, Singapore and Indonesia to the south and southeast, Malaysia also
stretched across the northern tier of Borneo to form the states of Sarawak and Sabah.

**Myanmar**, once called Burma, is one of ASEAN countries, sharing borders with Bangladesh,
India, China, Laos and Thailand. With a total land area of 676,577 sq. km, the country
stretches over 2090 km from north to south and over 925 km east to west. It has a 2832 km
long coastline on the Indian Ocean and over 50% of its total land area covered with forest.
Myanmar has a rich cultural and historical heritage with great places to visit like the glittering
Shwedagon Pagoda in Yangon (Rangoon) and Bagan. Yangon, the capital is dominated by
the Shwedagon, one of the world's greatest Buddhist Pagodas built 2500 years ago. The Sule
Pagoda, Bog yoke Market and the colonial buildings add to the architectural mix. Bagan, one
of Asia's is most stunning archaeological sites are located on the eastern bank of River
Ayeyarwaddy. Also being the capital of first Myanmar Empire, Bagan covers an area of 42
sq. km, containing over 2000 well preserved pagodas and temples of the 11th-13th centuries
and lacquerware from Bagan is keenly sought after.

**The Philippines** is a bejewelled archipelago with over 7,107 sun-drenched islands, beautiful
beaches, towering volcanic peaks, varied flora and fauna, and magnificent landscapes. It is
divided into three (3) geographical areas: Luzon, Visayas and Mindanao. The country has
several famous historical and cultural sites and buildings that reflect the rich culture and
heritage of Filipino people. The capital and gateway, Manila, a large sprawling city by the
bay, is situated in Luzon, the major northern island. Tourist Attractions in Manila include the
old fort city of Intramuros, the Malacanang Palace, the official residence of the president of
the Republic, Rizal Park, Cultural Centre of the Philippines, Nayong Pilipino, modern
shopping malls and exuberant entertainment theatre, bars and restaurants. Other attractions in
Luzon include Taal Volcano, Port Galera in Mindoro, Pagsanjan Falls, El Nido in Palawan,
Vigan Houses, Mayon Volcano, Subic Bay and Freeport, the famous Ifugao Rice Terraces, a
World Heritage Site, limestone burial caves of sagada in Mountain Province, and the cool
mountain retreat of Baguio City.

**Singapore**, described as the bridge between the East and the West for centuries, is located in
the heart of fascinating Southeast Asia, continues to embrace tradition and modernity today.
Unique is the word that best captures Singapore, a dynamic city rich in contrast and colour where you’ll find a harmonious blend of culture, cuisine, arts and architecture. **Vietnam,** which has only recently become accessible to tourists, is a country covering 2,000 kilometre long narrow strip along the South China Sea and includes riverine deltas, cool upland mountains, untouched coastal stretches, thriving cities and the relaxed capital Hanoi. Hanoi is more reserved than Ho Chi Minh City and features preserved French-style architecture, recreational lakes, stately monuments, galleries and busy street life. Halong Bay, as World Natural Heritage, to the north is a perfect holiday destination with inspirational limestone crags and islands. There are many ethnic groups living a traditional way of life around Sa Pa to the northwest of Hanoi. Further South, the Ancient Imperial City of Hue, as World Cultural Heritage, on the Perfume River was once home to the Emperors of south contains good beaches at Nha Trang, Da Nang (Bac My An Beach), Vung Tau and Bai Sau. Ho Chi Minh City is the most obvious sign of doi moi - Viet Nam's economic restructuring. The city once known as Saigon is vibrant, lively and progressive. Cholon, known as Saigon's Chinatown, is nearby and there are interesting pagodas, shops and streets. In and near the Mekong Delta there are several tourist attractions including the Cu Chi Tunnels, Cao Dai Cathedral and untouched farming villages like Long Xuyen.

<table>
<thead>
<tr>
<th>S/N</th>
<th>Country (language)</th>
<th>Capital city</th>
<th>Population</th>
</tr>
</thead>
<tbody>
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<td>Brunei Darussalam (Bahasa Melayu)</td>
<td>Bandar Seri Begawan</td>
<td>305,100</td>
</tr>
<tr>
<td>2</td>
<td>Singapore</td>
<td>Singapore</td>
<td>4.3 million</td>
</tr>
<tr>
<td>3</td>
<td>Lao Peoples Democratic Republic (Lao)</td>
<td>Vientiane</td>
<td>4.8 million</td>
</tr>
<tr>
<td>4</td>
<td>Cambodia (Khmer)</td>
<td>Phnom Penh</td>
<td>11 million</td>
</tr>
<tr>
<td>5</td>
<td>Malaysia (Bahasa Malaysia)</td>
<td>Kuala Lumpur</td>
<td>22.6 million</td>
</tr>
<tr>
<td>6</td>
<td>Myanmar (Myanmar)</td>
<td>Yangon</td>
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</tr>
<tr>
<td>7</td>
<td>Thailand</td>
<td>Bangkok</td>
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</tr>
<tr>
<td>8</td>
<td>Philippines (Filipino)</td>
<td>Manila</td>
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</tr>
<tr>
<td>9</td>
<td>Vietnam</td>
<td>Hanoi</td>
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<tr>
<td>10</td>
<td>Indonesia (Bahasa Indonesia)</td>
<td>Jakarta</td>
<td>200 million</td>
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</tbody>
</table>

**Thailand – Country Background**

Thailand, in its enduring traditions, embodies a quintessential *Thainess* which indelibly colours the nation and gives the sense of an ancient land that is different. Yet, the Thais miraculously combine a sincere respect for the past with zest for the new and a joy in today's innovations. From the golden-spired temples of Bangkok to the majestic ruins of ancient capitals, from the tranquil charm of rural towns to the excitement of tropical beach resorts, there is no shortage of choice. No matter how many times you've visited before, there is always something fresh to discover. Not only are the attractions rich and varied, there is also a style of holiday to suit all preferences. If, for example, all the fun and thrills of Pattaya beach resort is too much, there are the quieter seaside pleasures of Hua Hin and Cha-am, or the island resorts of Phuket and Ko Samui. Alternatively, if culture is the draw, numerous annual festivals are celebrated in traditional style and highlight enduring customs and beliefs. Special interest activities are other options; for example, anyone can sign up to study Buddhist meditation at a temple or to learn the art of Thai cooking from an expert chef at a five-star hotel. Tourists can “escape to a tropical island hideaway, laze on a pristine sandy beach, go mountain biking amid high, forest-clad hills, journey up the Chao Phraya River or explore the flora and fauna of more than 60 national parks and 32 wildlife sanctuaries.”
Thailand is the only Southeast Asian nation never to have been colonized by European
powers, is a constitutional monarchy whose current head of state is HM Bhumibol Adulyadej. liii A unified Thai kingdom has existed since the mid-14th century, and Thailand was known as Siam until 1939 when it officially became the Kingdom of Thailand. It is the 50th largest country in the world; most nearly equal in size to Spain. The population of Thailand comprises of roughly 65 million citizens, the majority of whom are ethnically Thai, though peoples of Chinese, Indian, Malay, Mon, Khmer, Burmese, and Lao origin are also represented to varying degrees. Approximately 7 million citizens live in the capital city, Bangkok, though this number varies seasonally and is otherwise difficult to accurately count. Thailand's capital, Bangkok expanded rapidly with the influx of workers during the boom years. It is one of Asia's most vibrant, and heavily-congested, cities. The large-scale sex industry which flourishes there contributed to the incidence of HIV infection - a major concern for the government. Thailand has taken the lead in the region in distributing cheaper generic drugs for Aids sufferers and awareness campaigns are credited with reducing the number of new infections. Thailand has a rough geographical area of 514,000 sq km (200,000 sq miles). This makes Thailand roughly equivalent in size to France or Texas. There are five regions of Thailand: North, Northeast, East, Central, and South, which are divided into 75+1 provinces, each geographically distinct from the others. Thailand covers 510,890 sq km of land and 2,230 sq km of water. The coastline of Thailand is 3,219 km long. Thailand’s longest shared border is with Myanmar (Burma), stretching 1,800 km. Located just 15 degrees north of the equator, Thailand’s largest peak, Doi Inthanon, is 2,565 meters (8,415 ft) tall. Each Thailand province contains unique cultural, historical, and natural attractions from the northern peaks (replete with wildlife and home to exotic hill tribes) and the central plains (the “Rice Bowl of Asia”) to the north-eastern plateau (stretching to the Mekong River border with Laos) and the spectacular beaches and islands of the south (including both Phuket and Samui). The weather in Thailand is generally hot and humid: typical of its location within the tropics. Thailand has a tropical climate and temperatures typically range from 19 to 38 degrees C (66-100 F). Generally speaking, Thailand can be divided into three seasons: “hot” season, rainy season, and “cool” season, though Thailand’s geography allows visitors to find suitable weather somewhere in the country throughout the year.

Thailand’s economy remains export-dependent, with exports accounting for 60% of a GDP that stood at roughly THB 7.7 trillion (approximately US$270 billion) as of 2008. iv This positions the economy of Thailand as the second largest in Southeast Asia, after Indonesia, a distinction it has held for many years. Thailand’s exports, worth approximately US$180 billion per annum, consist primarily of agricultural products, including fish and rice, the latter of which Thailand is the largest exporter of in the world, as well as textiles, rubber, automobiles, jewellery, and computers/electronic appliances. With the seventh lowest unemployment rate in the world, and only 10% of the population living below the poverty line, Thailand is a relatively economically developed nation. However, while one of the premier tourist destinations in the world, the Thai economy only receives around 7% of its GDP from international tourism revenue, a figure which is nonetheless a substantial 550 billion Baht (nearly US$16 billion).

Table 2. Economic Indicators (IMF World Economic Report, April 2012, p. 61)

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After a roller coaster ride in 2010, Thailand’s economic activity is gradually returning to normal. Quarterly economic growth rates are now closer to the levels often seen before the global financial crisis began in 2008. For 2011 as a whole, the World Bank now predicts that the Thai economy will grow 3.7%, a slightly upward revision from its earlier estimate of 3.2% (The World Bank, 2011). A strong recovery of tourism and a surge in external demand for autos and agricultural products helped boost Thai exports in the fourth quarter of 2010. Meanwhile, the impact of rising food and international fuel prices on the Thai economy has been cushioned by domestic price controls and robust export growth. The main downside risks to the outlook are external. In particular, the Thai economy remains exposed to further oil price shocks both directly and through the follow-on impact on Europe’s debt crisis and the United States’ fragile economic recovery. Uncertainty regarding the extent of disruption to the auto and electronics industries’ supply chains caused by Japan’s recent earthquake is another key risk.

Thailand’s exposure to trade with Europe is moderate, with 35% of exports going to the EU, US and Japan. Only 12% of Thailand’s exports are to the EU. However, Thailand is also exposed to these economies through its participation in production networks and trade with other countries in its region. 21% of China’s exports are for the EU market. 11% of Thailand's exports are to China. Regional demand, including from China, has helped support exports from Thailand. China’s imports of consumption goods grew fast, as it is set to overtake Europe as the second largest importer. Thailand has a 3.5% (1.4 billion USD) share in China’s consumer goods market. This is substantially more than for example Indonesia’s, Malaysia’s or the Philippines’ respective share in the Chinese consumer goods market. The March 2011 earthquake and tsunami in Japan impacted also Thailand, but most industry sectors in Japan recovered in six months after the earthquake. Japan’s automotive industry was particularly hard hit; the plant which produced 40 percent of the world’s microcontrollers was destroyed, halting car production around the world. Thailand, as other East Asian countries, suffered economic loss from the disrupted supply chains in electronics and automotive industries. Small car manufacturing in Thailand swung from growth at 46% in February 2011 to a 40% decline in April. But six months after the disaster the Thai automotive industry was growing at pre-disaster rates and at almost pre-disaster levels.

**The Bad & Ugly**

Over 800,000 British nationals visit Thailand every year (Thai Ministry of Tourism and Sports). Statistics have shown that about 978 British nationals required consular assistance in Thailand between 1 April 2011 and 31 March 2012 for incidents ranging from 296 deaths; 217 hospitalisations; and 204 arrests. For those unfortunate to request such assistance, seven British nationals have been murdered in Thailand since January 2009. Overall Western tourists have been victims of vicious, unprovoked attacks by gangs in Koh Phangan. These attacks are particularly common around the time of the Full Moon parties and generally occur late at night near bars in Haad Rin on Koh Phangan. On 1 January 2013 a British national was killed in a shooting incident while at a beach party in Haad Rin. Exercise caution when in this area at any time, especially after dark. Violent assaults and robberies have been reported in Chaweng, Koh Samui. Attacks have also occurred in other tourist districts in Thailand frequented by western tourists including Chiang Mai. Care should be taken in such
areas, especially at night. There have been incidents of sexual offences committed against foreign men and women, especially in the Koh Samui archipelago. Since 2009, a number of British nationals were victims of serious sexual offences.

The Good, present & Future – Football in Thailand

ASEAN Football Federation (AFF)

The AFF Suzuki Cup is a biennial football competition organized by the ASEAN Football Federation (AFF), accredited by FIFA and contested by the national teams of Southeast Asia. Malaysia and Thailand were co-hosts for the group stages of the AFF Suzuki Cup 2012. This means that Malaysia has been involved in hosting the event for the second time, having previously co-hosted the tournament in 2004, while Thailand were hosts in 2000, and co-hosts in 2006/2007 and 2008. The qualifying rounds were held in Myanmar between 5th and 13th October 2012. Brunei, Cambodia, Laos, and Timor Leste will compete with hosts Myanmar in a round-robin tournament for the two remaining spots in the tournament proper. This meant that a total of eight teams vied for the AFF Suzuki Cup trophy from 24th November to 22nd December (see table 3). The top two teams from the qualifiers will join the top six seeded ASEAN nations - Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam to make up the final field of eight nations.

Table 3. AFF Suzuki Cup Groups 7 Results

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<th>D</th>
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<th>GA</th>
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<td>Indonesia</td>
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<td>Laos</td>
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</tbody>
</table>

AFF Suzuki Cup

The AFF Suzuki Cup was compelling viewing with three-time champions Thailand and Singapore failing to reach the knock-out stages, while qualifiers the Philippines and Laos lit up the tournament with surprising performances. The inaugural tournament in Singapore proved to be an unforgettable two-week football extravaganza, which drew large crowds to the National Stadium with millions more watching on television. Overwhelming favourites Thailand lifted the trophy after defeating Malaysia 1-0 in a hard-fought final. The foundation had been set for an exciting competition that would continue to grab the attention of fans throughout Southeast Asia. The passion was even more apparent two years later when the tournament was played in Vietnam. Riding on a wave of national euphoria the hosts swept all before them, trouncing champions Thailand 3-0 to reach the final. The title was to elude Vietnam though as they went down 1-0 to un-fancied Singapore in the final in one of the competition’s biggest shocks to date. Thailand reasserted their dominance when they hosted the event for the first time in 2000. With star striker Kiatisuk ‘Zico’ Senamuang in inspired form, the Thais powered their way to the title, comfortably winning all five games. In the
final at Bangkok’s Rajamangala Stadium, a hat-trick by Worrawoot Srimaka fired the Thais to a decisive 4-1 win over Indonesia.

The 2002 tournament was more tightly contested with the Thais just scraping into the semi-finals after losing 3-1 to Malaysia and drawing 1-1 with Singapore in the group stage. Thailand took a 2-0 half-time lead over hosts Indonesia in the final at the Gelora Bungkarno Stadium in Jakarta. However, the Indonesians battled back to level the score and force the game to a penalty shootout, which Thailand won 4-2. In their bid for a third straight title in 2004, Thailand fielded the so-called ‘Young Bloods’ but the gamble of relying on youth failed to pay off and the defending champions were eliminated in the group stage in Malaysia.

Co-hosts Vietnam also failed to reach the semis that matched Singapore with Myanmar while Malaysia took on Indonesia. Singapore and Indonesia won through to a dramatic two-legged final with Singapore clinching their second title 5-2 on aggregate (3-1, 2-1) with a couple of fantastic performances. Singapore, guided by inspirational coach Raddy Avramovic, retained the title in dramatic fashion in early 2007 edging Thailand 3-2 on aggregate in the final.

**AFF Past hosts & winners**

The lore and lure of the AFF Suzuki Cup continues to grow with full house crowds and millions of television viewers witnessing the action and eventual crowning of first time champions, Malaysia, two years ago in 2010. The tournament, first staged in 1996 and the successor to the Tiger Cup and ASEAN Football Championship, fires old rivalries and unearths new talent in a region transfixed by the beautiful game. Biennially, the AFF Suzuki Cup intensifies the passion that is felt for the game throughout ASEAN with fans flocking to the stadia in their tens of thousands and generating the unique buzz that characterises football in Southeast Asia. A youthful Malaysia side was the success story of AFF Suzuki Cup 2010. After their best ever campaign, highlighted by a 2-0 win over Vietnam in the first leg of the semi-final, they beat Indonesia 4-2 on aggregate in the two-legged final to spark an outpouring of joy across a country starved of football success. According to coach K. Rajagobal, “I am very, very, very proud of these young boys because they have done a tremendous job for our country.”

In 2008, Vietnam tore up the script as they overcame raging favourites Thailand to lift the AFF Suzuki Cup for the first time in their history after a dramatic denouement to an enthralling tournament. With three minutes of added time gone in Hanoi’s My Dinh Stadium, Vietnam’s superstar striker Le Cong Vinh sealed the title with a nod of his highly prized head to send the nation into a frenzy. The golden goal from the golden boy earned Vietnam a 1-1 draw with Thailand on the night and a 3-2 aggregate victory after their surprise win in the first leg of the final in Bangkok. According to the Vietnam coach Henrique Calisto: “I’m feeling overjoyed at the moment [...] The difference with this team compared to Vietnam sides in the past is that they believe in themselves and they fought all the way until the final whistle.” Although they have since stayed away from Asian limelight, the War Elephants remain among the region’s most successful teams, having won the AFF Suzuki Cup three times (FIFA, 28 December 2012). The 2010 campaign saw them crash out in the group phase, but under German Winfried Schafer, Thailand entered this year’s ninth edition determined to put aside that disappointment. And they lived up to the expectations as co-hosts, cruising all the way through to their sixth final only to be edged out by Singapore 3-2 over two legs. Despite this, they were rewarded for their smooth run en-route to the final with a 16-place climb up the FIFA/Coca Cola World Ranking to 136 (see Table 4).
Table 4. Thailand world ranking 1993-2013

<table>
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<th>FIFA Ranking</th>
<th>Year</th>
<th>FIFA Ranking</th>
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</tr>
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<td>2003</td>
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Notes: Thailand average position from FIFA World Ranking creation is 86.
Highest FIFA ranking was 43 (September 1998) and Lowest FIFA Ranking was 152 (November 2012).

The current ranking is far from their highest standing of 43 in the global pecking order in September 1998. However, the double-digit progress saw them become Asia's best movers as at January 2013 and restore their place among the continent's top 20 (at 21st precisely, but still ahead of arch rivals Singapore with only 146 points and global rank of 154). Even more notable was the fact that the achievement came in the wake of their failed qualifying campaign for the 2014 FIFA World Cup Brazil. The Thais did impress in the early stages of continental qualifying which included routing Oman 3-0 and holding Saudi Arabia to a goalless draw. However, they fell short when it mattered most, losing their last three games to narrowly miss a place in the final round. The results pushed Thailand to 139 in March, and a dearth of international fixtures over the next months saw them slip to an all-time low of 152 in November 2012 (see tables 4 and 5). The AFF Suzuki Cup, however, provided them with a chance to turn the downward spiral on its head. Keen to restore some lost credibility, Thailand got off to an expected start with a 2-1 defeat of hopefuls Philippines, before firing four unanswered goals past Myanmar with striking-ace Teerasil Dangda completing a hat-trick.

A 3-1 defeat of 2008 winners Vietnam booked their progression as group winners. They had their first test in the semi-final meeting against defending champions Malaysia, with Dangda striking late to cancel out Norshahrul Idlan Talaha's opener as they negotiated a 1-1 draw at Kuala Lumpur. But it was a different story in the return leg in Bangkok, where they ran out 2-0 victors to set up the final showdown with Singapore (FIFA, 28 December 2012). Thailand’s hopes of a record fourth triumph, however, were dealt a severe blow after losing the opening game 3-1 in Singapore. They did win last Saturday's return match 1-0, but it was the Lions who narrowly sealed the title as aggregate. Dangda, though, grabbed the...
tournament's top-scorer award with five goals, while Kirati Keawsombut was on target three times including a brace against Vietnam. Panupong Wongsa excelled in his captaincy role and the team's brilliant display provided Schafer with reason for optimism. The former Cameroon manager added that: "The Suzuki Cup was positive for Thailand [...] We can build a good national team from here. We have enough talent in Thailand and I want to press ahead with our development. We have to look to the future and I am confident Thailand can go up to a different level. We cannot stop here."\textsuperscript{iliki}

Table 5. AFC Top 40 Ranking (FIFA 17 January 2013)

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Notes: Last Updated 17 Jan 2013. Next Release 14 Feb 2013

Thailand and the Footie Business

A trip to Thailand may have given Sven Goran Eriksson's career a fillip but it hasn't always been plain sailing for former football A-listers in the Land of Smiles (FIFA, 16 October 2012). The Swedish ex-England boss seems to have worked his old magic with new club BEC Tero Sasana, who hit form with a 7-1 romp over TTM Phichit recently and have only lost once since he joined as technical director in September 2012 (Sven is now technical director at Al Nasr, Dubai). Eriksson, whose cluttered CV includes Notts County, Leicester City and Ivory Coast since departing the England job in 2006, has now been mentioned for the vacant Blackburn Rovers post by a senior official at the Premier League club (FIFA, 16 October 2012). Big names that have turned their careers around in Thailand are rare. Robbie Fowler, Bryan Robson and Peter Reid are also among those who have tried their luck in the balmy Asian tourist spot, with mixed results (FIFA, 16 October 2012).
Fowler, known simply as "God" to adoring Liverpool fans for his goal-scoring exploits, failed to fully capture the hearts of Muang Thong United during an ill-fated spell in the Thai Premier League. Robson was appreciated as a solid, if unremarkable, manager for his two-year spell with the national team which ended in 2011. Zesh Rehman, the towering defender who was one of the first British Asian stars in the English Premier League, had a better time at Muang Thong, winning the fans' affection before moving to Hong Kong champions Kitchee this year.

Eriksson told AFP pointed out that: *It is a big challenge [...] Football is getting better and the interest in football is higher. Of course they want the level to improve for the national team and at club level also.* Young, fit players from all over the globe who struggle to break into the upper echelons of their own competitive leagues are eager to take up offers to make their mark in the TPL (Thai Premier League), which recently eased strict quotas on overseas players.

**Table 6. Thailand League Standing**

<table>
<thead>
<tr>
<th>Team</th>
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While Eriksson has been welcomed with open arms by the Thai football community, including the national team coach, Germany's Winfried Schaefer, “*This is very good for Thai football. We need a good coach like him [...] Sven is an experienced coach and Thai players can learn a lot from him.*” Wales's Michael Byrne, who plies his trade with TPL side Chainat
FC, was also quoted thus, “I love it here. People are friendly and easy going. My wife and son love it too.”

Conclusions

This paper was primarily geared towards highlighting the stereotype of Thailand as a destination for sex tourism, a violent society, murder capital of Southeast Asia as well as a non entity in terms of economic growth and development. However, after evaluating the changing landscape of an underreported sector – i.e. sports and football in particular, whose role could bring about substantial economic development and a change of negative band perceptions about the member of the 10-nation ASEAN. Using the recently concluded FIFA accredited AFF Suzuki Cup as a worthy illustration, the paper has argued that sports and/ or football is growing exponentially in Thailand and has all the requisite attributes for rebranding the country. Just as was said about both Germany and Brazil (El Savador in particular), in a recent article in Knowledge@Wharton, the 2006 World Cup in Germany, despite its limited economic success, had more significance in other areas such as “the novelty effect of the stadiums, the improved image for Germany and the feel-good effect for the population.” Indeed as a result of the World Cup, “the perception of Germany has risen in other countries. The erstwhile image abroad of Germany as hard and cold ... not a nation much associated with warmth, hospitality, beauty, culture or fun, was improved through the World Cup....” (Knowledge@Wharton , 26 January 2011).

Similarly, Willi Lemke, special advisor to the UN Secretary-General on Sport for Development and Peace, in a recent interview about the 2010 World Cup in South Africa stated that “[Ime] has long been a problem in Africa, and when the media focus on scandals and other problems, that only serves to make the vicious circle even bigger.... It is incredibly important that Africa manages to get people talking about the positive side for once. South Africa has the perfect opportunity to show the world its beauty [...] culture, its diversity and its happy people” (Knowledge@Wharton , 26 January 2011).

These two illustrations go to show that a “mega” footballing event can and does change the perception of places and this can be extended and/ or extrapolated to Thailand, which is in dire need of a rebrand.

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Workplace Spirituality in a University Setting

Abstract

The purpose of this paper is to review spirituality in the work literature to see first what spirituality and workplace spirituality mean and their influence on work; second, what happens when spirituality or religion is forsaken; and third, to give reasons for the recent rise in interest in spirituality which is making its way into every area of our personal and professional life.

Spirituality which influences people on a personal, organizational and societal level cannot be ignored in business education. Spirituality which enhances employee well-being and quality of life creates a sense of purpose, meaning, interconnectedness and community. The purpose of this study is to show how spirituality lies at the heart of education and how incorporating spirituality in business schools is not an alien concept. It is to show that the mission of higher education, itself spiritual in nature, can pave a new road to business school education.

Keywords: Spirituality; religion; workplace; education; mission; university; business schools; performance.

Introduction

Defining Spirituality

Defining spirituality remains one of the main challenges in this new field of study. “Spirit comes from the Latin word “spiritus” or “spiritualis” meaning ‘breathing, breath, air or wind (Merriam-Webster). Spiritus is defined as “an animating or vital principle held to give life to physical organisms” (Merriam-Webster). This means the spirit is the life force that keeps us alive and breathing (Garcia-Zamor, 2003). The most important conception of the soul is its internal animating principle; “it is that which moves it and makes it live, to such an extent that when it withdraws itself, life ceases or is suspended” (Durkheim, 1961, p.84).

Many definitions have appeared in the last decade without a widely accepted definition or example. Spirituality has been defined as our inner consciousness (Guillory, 2000, Rama, 2002), a process of enlightenment (Barnett et al., 2000, p.563), a specific form of work feeling that energizes action (Dehler and Welsh, 1994), “a world view plus a path” (Cavanagh et al.,2001, p.6), an “access to the scared force that impels” (Nash and McLennon, 2001, p.17), the “unique inner search for the fullest personal development through participation into transcendent mystery” (Delbecq, 1999, p.345), knowing our deepest selves with heart knowledge (Conger, 1994) and “the basic feeling of being connected with one’s complete self, others and the entire universe” (Mitroff and Denton, 1999, p.83).

Following along the same lines, Swami Rama defines spirituality as “that which helps us to discipline our thoughts, speech, and actions; that which leads us toward the center of consciousness, and thereby helps to unfold our inner potentials" Swami Rama (2002). So how is this spirituality making way into our workplace? And what does it imply? And what role can religion or the lack of it play at work?
Workplace Spirituality

What kind of role does religion play in people’s work ethics and what happens when customs and Faith weaken? How can societies hold on to their integrity and coherence when traditional social and religious ties are forsaken?

The relationship between work, religion, and spiritual life is not novel to social science. A study of such a relationship was “foundational to the social theorizing” (Case & Gosling, p.258) of Weber and Durkheim. This research invokes social theorists and references their work as an introduction to WPS for the purpose of giving more legacy, depth and valor.

Some proponents of WSP appear to be treating spirituality as yet another unharnessed resource; this does not do it justice first for its own worth and second for its credibility among skeptics who see it as a commodification of spirituality for material gains. Therefore, it is imperative to trace the relation back to broader social theories that give recent contributions a headrest within two prominent works of the last century.

The Influence of Religion on Work

The influence of religion has long played a dominant role in every aspect of one’s life. Every behavior and every deed was seen through the lens of Heaven. “The corporation was a religious organization” (Durkheim, 1933) where people worked with a sense of obligation, a duty set forth by God. Hard work was but a manifested form of worship; a “calling” that stood against any kind of idleness displayed irrespective of how wealthy a person was. Labor was “performed as if it were an absolute end in itself” (Weber, 1958, p.63).

“A man does not “by nature” wish to earn more and more money, but simply to live as he is accustomed to live and earn as much as is necessary for that purpose” (Weber, 1958, p.60). There is a maximum of happiness which cannot be surpassed. “Nothing is more doubtful” than the idea that individual happiness will increase with human advances and social progress (Durkheim, 1933, p.241). The only exception to that is in spiritual functions (Durkheim, 1933).

It is those people who view their duty as one of the highest and most moral human activity, those who take pride in their work and are committed and loyal to their occupation, who were able to transcend daily problems. The religious significance people hold to their duty makes them abide by moral codes that free them from material ends. It is within their life of discipline that they become free. For the essence of freedom is not in succumbing to every desire but in obeying Laws. Living a life for God gives a freedom and purpose beyond any material gain.

When Religion is Forsaken

Religion that gives the conscience a role in pious character building makes those who reject it feel empty. Those who abandon such a spirit look for wholeness in their work alone. They become desolate, unsatisfied and in search for more. Work is not about accumulating wealth but the “attainment of it as a fruit of labour in a calling” is “a sign of God’s blessing” (Weber, 1958, p.172). The security wealth brings should not stop people from working; wealth does not exempt anyone from the Command by God to work. Resting with wealth and falling into the “danger of relaxation” will stray people from the righteous life. “On earth man must “do the works of Him, who sent him, as long as it is yet day” (Weber, 1958, p.157). Human life is relatively short and thus wasting time with leisure, luxury, trivial talk and extra sleep is a
‘moral condemnation’ as well as the deadliest of sins. Time “is infinitely valuable because every hour is lost to labor for the glory of God.” Inactive meditation or contemplation are valueless; “For it is less pleasing to God than active performance of His will in a calling” (Weber, 1958, p. 158).

All religions call on their members to act responsibly and ethically in the work sphere. They stress “the urgency of worldly problems such as the accumulation of wealth and power by a few and deprivation experienced by those at the other end of the socioeconomic scale. They urge their members to address these inequalities through the workplace…” (Caddell & Davidson, 1994, p.137). Members, who see religion as integral to their identity are more likely to think of their work as a “calling” to build a more just and equal world. Having a more holistic view of life, their Faith is manifested in everything they do. Work becomes a sacred duty, a way to serve God. Work that becomes more meaningful will increase the commitment and productivity of employees (Paloutzian et al., 2003; Reave, 2005).

The Protestant work ethics can be extended to other religions as well. Contrary to what Weber believed, such work ethics could very well be part of other belief systems. Recently, Arslan (2001) made the point that even an atheist can inherit protestant work ethics from his or her pious protestant family; Let alone other religions.

“Islam’s view on work ethic is not much different from Protestant and Catholic views” (Zulfikar, 2012, p.490; Ali, 2001; Uygur, 2009; Arslan, 2000). The main source of Islamic Work Ethic, the Quran and the Prophet Muhammad’s sayings, give Muslims guidelines to follow in their family and work lives. But in Islam, virtue is not attributed to work as an end in itself but rather as a means to reaching God’s approval. Work according to Islam is “at an equal level as worship” (Zulfikar, 2012, p.501). Hard work is praised while idleness, waste of time and money scolded. “Work in Islam is considered a virtue in light of man’s needs and the necessity to establish equilibrium in one’s individual and social life (Ali, 2001, p. 576). Weber’s Protestant work ethics discussed earlier was found to be internalized among practicing Muslims. According to the research done by Arslan (2001) and later supported by Zulfikar (2012), pious Muslim managers endorsed higher Protestant work ethics values in comparison to British Protestants (Arslan, 2001) and American Protestants and Catholics (Zulfiqar, 2012). Islamic work ethics included most of the “Protestant work ethics characteristics” (Arslan, 2000, p.18). An explanation to this is the fact that the pious Muslims were practicing their religion in all aspects of their life. They did not leave their Faith at home but rather carried religious values into the workplace as well. Turkish Muslims who visited Europe call the “work ethics values of these countries ‘Islamic’ without hesitation” (Uygur, 2009, p.219).

However, for ethical behavior to be self-managed and sustained, it needs to stem from deeply held values. Values provide a motive for sincere ethical behavior. A person who knows legitimacy (halal) from sin (haram), righteousness and honesty can transfer these values to his or her work life.

Thus religious culture can be pertinent to business practices. Abiding by religious laws and internalizing religious values has a direct influence on business practices. Although secular people may appear to have similar values, they are easier taught and followed in a religious environment; furthermore, they may be religious values but stripped from their origin (Zulfikar, 2012); covered with a secular appeal that pretends to take ownership, values are accepted without an earnest appeal to understand where they came from.
The Interest in Spirituality

The sudden rise in interest that surrounds the notion of “spirituality” is itself a phenomenon. Management researchers and practitioners in the last two decades have taken a dramatic and increasing interest in “spirituality at work” (Gibbons, 2000; Hicks, 2002; Conger, 1994; Gotsis and kortezi, 2008; Mitroff and Denton, 1999; Duchon and Plowman, 2005; Ashmos and Duchon, 2000; Marques, 2007; Cavanagh and Bandsuch, 2002; Benefiel, 2003; Giacolone and Jurkiewicz, 2003, 2010). Interest in workplace spirituality has infused curiosity beyond the capacity to keep up both theoretically and methodologically (Giacolone and Jurkiewicz, 2010).

This growing interest is obvious with the substantial number of professional presentations, books, journal articles and conferences committed to the subject. Some of these books on spirituality and work have been among best sellers, such as A Spiritual Audit of Corporate America (Mitroff and Denton, 1999b), Liberating the Corporate Soul (Barnett, 1998), Spirit at Work (Conger, 1994), The Souls of a Business: Managing for Profit and the Common Good (Chappel, 1993) and Leading with Soul (Bolman and Deal, 1995).

In addition, universities have started to offer courses on spirituality at work. For example, a course offered at Santa Clara University discusses important issues as a calling; “listening to the inner voice in the midst of turbulent business environments; the need for self-integration; discernment and senior business leadership; approaches to prayer and meditation; challenges of leadership power; the spiritual challenges of wealth vs. poverty of spirit; contemplative practices; and the mystery of suffering. Towards the end of the course, the group organizes a weekend retreat together. Among the same path, business schools such as Stanford, Wharton, University of Wisconsin and the University of Maryland are stressing service learning. Undergraduates and graduates have to do service work for the underprivileged in the community. Such work leaves a profound positive impact on the student especially in the reflection of the experience itself (Cavanagh, 1999, p187).

Factors Behind the Interest in Workplace Spirituality

In which context has spirituality in the workplace risen? Why the sudden surge? The first factor can be the aging of baby boomers from the 1960’s who have already reached their middle age crisis; they are asking questions such as ‘what have I done with my life?’ ‘What can I still do’? ‘What is my purpose?’ ‘Have I achieved it?’ A second factor that may explain the interest in spirituality in the workplace is the feeling of insecurity workers are having; this is due to high lay-offs, downsizing and the additional demand for working hours. This insecurity gives reason for one to ponder and reflect (Neal, 1997). In addition, workers are expected to work in an environment where commercial values prevail in a culture of materialism; where uncertain environments carry with them ambiguity and more responsibilities. This new reality in the workplace has left people feeling alienated and disconnected with their work and social lives. People again start asking questions concerning reasons behind their work, why they do what they do.

To solve this problem, organizations need to open their eyes and see more clearly that they are neglecting a major part of their constituencies’ existence. Steven Covey’s 8th habit is to find your voice and inspire others to find theirs through spiritual intelligence (Covey, 2004).

A third factor in this rising interest in spirituality has to do with the breakdown or decline of community. Before, when an individual was faced with life changing events such as divorce,
death, loss of a job etc., it was natural to reach out for the religious community, or the family for support. Local communities and social groups used to provide connectedness (Conger 1994); Nowadays, in light of the melting down of traditional support systems such as the church or family (Leigh, 1997), “workplaces have replaced them as primary sources of community for many people” (Karakas, 2010 p.98).

In response, organizations are starting to join together employee’s “work life” and “personal life” (Geh & Tan, 2009, p.293). Unlike the past, emotional and spiritual lives are making their way into the work environment.

A model of spirituality in organizations includes three levels: the individual (inner life, meaning at work, sense of community), the work-unit level (work unit as community, and positive work-unit values) and the organizational level (organizational values) (Ashmos & Duchon, 2000; Mitroff & Denton, 1999).

Kouzes and Posner (2003, p.69-70) exemplify this search for meaning with the following set of existential questions:

What do I stand for? What do I believe in? Why?
What is the meaning of the work I am doing? Where does this lead me to?
Is there a reason for my existence and the organization’s?
What brings me suffering? What makes me weep and wail? Why?
What am I passionate about? Why? What keeps me awake at night? Why?
What do I want for my life? Why? What do I really care about? (p. 69-70)

Paloutzian et al. (2003) assert that work takes on a new flavor when it is seen as a calling, a sacred duty, and an opportunity to serve God or simply a higher purpose.
The value of incorporating spirituality in the workplace lies in addressing all the human needs of employees. The need for self-actualization becomes the need for a spiritual dimension. Employees who view their work as a ‘sacred vocation’ see their work differently from those who see it as a means to pay bills. Work will be seen as an ‘extension of one’s purpose rather than only a means to an end (Zinnbauer et al., 1999).

Individuals, who perceive their work settings as a place where they can freely express beliefs and religious identity are perceived to have better workplace attitudes and behaviors; in brief, religion at work has shown positive results (Kutcher et al. 2010).

**How can this spirituality be incorporated in an organization?**

How can notions of spiritual practice, discipline and wisdom be integrated in a secular organization? (Case & Gosling, 2010). What place can spirituality fill and how can it be incorporated meaningfully into a work setting that does not utter the word “spirituality”? First, a strong organizational culture is needed; one that values diversity respects all beliefs and serves as a community of shared principles. With a strong sense of purpose, employees can build open and trustful relations at work.

The organization which serves as a community makes every employee feel like a member. Employees appreciate it when their organization respects and embraces others spiritual values even if they themselves are not spiritual. This is because human kind is joined together by shared moral codes. Kutcher et al. (2010) affirm that there are many common values among people with different faiths. These include empathy, servant-orientation and community.
In an organization where spirituality is embraced, “values and mission statements are not forgotten documents but are engaged through a continuing process of reflection. The ongoing engagement with missions and values, supported by the organization’s spiritual efforts, can impel organizations to re-conceptualize their orientation to their mission” (Geh & Tan, 2009 p. 296).

Second, for spirituality to be incorporated in an organization, effort must be placed to help employees find time for reflection, silence, meditation and prayer (Duerr, 2004). Organizations should focus on employee empowerment and spiritual development. In reality, “there may be not only a human case, but also a business case, for accepting and encouraging the expression of faith and religion at work” (p. 335). Third, incorporating spirituality falls into fulfilling your ‘spirit’ at work.

**Spirituality in Education**

Incorporating spirituality in all subjects of learning can help achieve the central aim of education. Foucault (1986) asserts that the purpose behind education is first a ‘perfecting of the soul’. “To know how to perfect one’s soul with the help of reason is a rule equally necessary for all men” (Foucault, 1986, p. 48). Foucault (1986) as Kant before him believes everyone must study philosophy; it is never too early or too late to contemplate about life and rediscover the basic principles of a rational human conduct. He speaks of the cultivation of the self that leads to a wisdom; a wisdom that drives virtues into action. “The care of the self appears therefore as intrinsically linked to a “soul service (p. 54).”

Foucault (1986) argues that in education or in philosophy, humans seek improvement and perfecting of the soul. “Educating oneself and taking care of oneself are interconnected activities” (p. 55). Schools must not be a place where students come just to acquire knowledge useful for a career or a reputation before going out to society and deriving an advantage from it. “The school should be thought of as a dispensary for the soul” (p. 55).

Education is implied to be holistic in nature. Foucault (1986) gives the example of medicine and how it was conceived long ago not as just an intervention relying on remedies and treatments; rather, it was supposed to define knowledge and rules as “a way of living, a reflective mode of relation to oneself, to one’s body, to food, to wakefulness and sleep, to the various activities, and to the environment” (p. 100). Medicine thus was expected to propose a ‘voluntary and rational structure of conduct’.

So which values should be founded, embraced and spread in education? What purpose should the curriculum encompass and towards what end? What moral standard should rule over teaching and learning? When we talk about values, it is not those that are based on desire and interest but rather those of ‘objective worth’ (Phenix, 1961, p. 5)? It is vital to note that any earnest concern about what’s right and wrong rests on the fact that “there are objective standards of worth upon which universal agreement is in principle possible” (p. 5).

Phenix (1961) speaks about a ‘moral enterprise.’ He asks why people are so far from common understanding of what’s good and so slow in serving the right. He answers first by blaming it on ignorance that can be remedied with research and education; second he blames the “boundless depth and richness of reality” (p. 6). An education is not for accumulating information but rather it is in learning to learn and being ready to meet new demands and
making choices ‘imaginatively’. And lastly, people disagree on good and evil mostly because of the human tendency towards ‘self-centeredness,’ a selfishness entrenched in a philosophy where “values are reduced to interests, desires, or wants, and in which all notions of objective good and right are rejected” (p.6).

To remedy this main case of moral failure and confusion, education should embrace its central aim of transforming people from pleasing themselves to serving the common good. It is the transformation of people from the life of self-centered desire to that of “devoted service of excellence” (p.8). According to Phenix (1961) what Saint Augustine meant by his ‘ethical prescription’: “Love God and do as you please” (p.9) is that “a person who is really devoted to the good experiences no conflict between desire and duty, for his wants have been transformed to accord with the supreme object of devotion” (p.9).

To this end, educational policy and criteria should entail subordinating economic interests to criteria of worth. Reality holds that an economic outlook is dominating all phases of our life, even our education. When knowledge starts to be considered a commodity to be accumulated and consumed, and when intelligence is viewed as a mere tool for gain and interest, than there is a problem. The goal of life that has become materialistic starts to include an education that is organized around serving such purposes (Phenix, 1961). On the other side of the spectrum, organizing education around a meaningful goal and purpose will validate the very aim of any educational institution. Education is not a neutral enterprise but rather one that is permeated with “convictions about what is important to know and become” (p.18). The curriculum is not mere lessons to be learned and courses to pass but rather a scheme of values, ideals or life goals that are mediated through the subjects of study.

Phenix (1961) asserts that ‘Religious faith’ is prevalent whenever material goods are treated as “a trust to be administered for the right rather than a treasure to be grasped…” (p.251). Redirecting life from finite attachment and acquisitions to the active love of serving others and doing ‘good’ is an important goal in life. To achieve this change is “the supreme end of all teaching and learning” where the sovereign test for all education becomes “whether or not it is religious—that is, whether or not it tends towards conversion of the person to unconditional commitment to truth and light” (p.243). This supreme purpose unites all other lesser aims of education.

To this end, Phenix (1961) ends his discourse on the aim of education by stating that the central task of education is “religious conversion” (p.242). This does not mean commitment to one religion over the other; rather what is meant is “the inner transformation of purpose and motive from self-regarding irreligion and the idolatrous service of limited goods to reverent service of the most high” (p.242).

Probed about the purpose of a university Kamuf (1997) asserts as Derrida (2004) that it is an institution with a ‘destination’; It is a plurality of co-existing “interests” that complement one another within the larger, overriding interest of universitas” (p.143). Agreement must be sought on the “ideals, mission, purpose, and character of the academy” (p.143)—that’s what the university means.

In light of all of the above, it becomes clear that the aim of education, its essence, purpose and ideals are in coherence with the concept of workplace spirituality. Incorporating or reviving spirituality in education helps in achieving its centrally positioned moral purpose. For this reason, it becomes essential to discourse how education institutions see their purpose.
through their mission; how they understand and claim that aim; and whether the underlying truth which gave the university its name can be revealed?

**Missions of Business Schools:**
The mission of business schools has long been an area of debate. What is the purpose of business schools? What should be taught and apprehended from a curriculum that assumes to make students ready for the business world? And when developed and formed, what kind of challenge does the mission face in order to bring it to life? “To what degree do the words used reflect the institution’s own values and daily practices” (Firmin & Gilson, 2010, p.67)? How is, what is happening on a daily basis a reflection of the mission? Mission should be matched with actual practices (Firmin & Gilson, 2010, p.67).

The purpose of business schools is not separate from the founding university. Similar values should make their way into all different disciplines. They should find a way to unite their differences under one truth. An example is Chapman University which offers an “Organizational leadership program” that includes courses such as “Leading from within” and “Spirituality in the workplace” (Bradley & Kauanui, 2003, p.448).

**Conclusion**
“The divided soul of a corporate decision-maker has been taught by the divided soul of a teacher” (Bradley & Kauanui, 2003, p.449). Spirituality is not a term used to describe a detached intangible concept outside of the human being. It is not a term which describes an unachievable state of being; it is not far-fetched nor a dream in a land of illusions. It is a truth manifested in the mere fact that we are alive, a foil that gleams at all worldly materialistic ends. Spirituality is an inner feeling incepted from the moment of creation. It is the driving force which energizes people to question and find meaning in every aspect of their life. Stemming from a personal level, its light glows in every interaction and within every setting.

This research wishes to evoke thought and feelings towards transforming our academic system and re incorporating spirituality as the center of universities. Although research has shown that there is a great “disparity between the level of spirituality being practiced in the corporate workplace and what is being practiced on our campuses” (Bradley & Kauanui, 2003, p.462), social transformation starts in the mind of students who receive not only cognitive but also emotional and spiritual stimulation; and because future corporate officers, managers, business and scientific leaders come from universities, “if they do not learn how to be spiritual, leading an undivided life, in their university courses, the chances are excellent that they will not learn it in the corporate workplace” (Bradley & Kauanui, 2003, p.461).

Finally we should not forget that before Darwin and others led to a split between religious traditions and the curriculum, most higher academic settings in the eighteenth and nineteenth centuries, “such as Yale, Harvard and Notre Dame, were founded by Protestant and Roman Catholic religious communities…where “education fit with the aims of religion”” (Bradley & Kauanui, 2003, p.462).

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Issues of Business in the Cloud

Abstract

Cloud computing is a new structure of Information Technology that is becoming the main part of the new model of business environment. Cloud services provide easy, quick and scalable business setting and development across the globe. However, Issues regarding such new hype of technology does not come without obstacles. These issues have to be addressed before full acceptability of cloud services in a globalized business environment. After overviewing the advantages of cloud computing and globalization of technology, this paper reviews these issues to guide businesses to take appropriate steps before consideration to join the cloud.

Keywords: Cloud computing, Cloud services cloud malware attacks, Cloud Business protection, Network security, Business security, Cloud Ethics.

Introduction

As most types of advancement in application of information technology, Cloud computing is becoming one type of information technology that has a leap of change in different aspects of businesses and customers. At personal level, customers realize that accessing the cloud is easy and cheap operation of driving any facilities or utilities in their day-to-day social and their business need operations. For example, cloud service can be used to auto-sync the downloaded music files from a mobile device and synchronize it with a desktop or laptop. Device mobility augmented with cloud services provides an excellent attraction to business operations. For example, businesses in construction industry can auto-sync their mobile devices with servers in the cloud. This gives them a global access to their main headquarters from their mobile device like iPhone or similar. The way of conducting business operation in such case is changing dramatically. Using a mobile device like smartphone, businesses can now use business Intelligence technique to automatically investigate different issues regarding marketing needs, supply chain problems, customer services on the fly and with minimal amount of effort and expertise. Businesses and consumers already started using cloud computing platforms and services to assist in various tasks like data collection and storage as well as communication and collaboration (Simmhan et al. 2008; Yogesh et al. 2009). The main benefit to businesses is the time and cost saving of IT technical setup and troubleshooting which is highly valuable issue for small firms. Actually small and mid-sized companies can benefit from cloud computing by freeing up company’s employee resources to spend more time on increasing sales and profits. However, there are many different types of clouds, as well as different types of services offered. Each of which has a different types of issues and risks that has to be addressed and studied before joining the cloud. Technically, the main weak bottleneck of cloud computing is that it is purely based on the “Internet”. Hence, if connectivity failed for one reason or another, the whole business will freeze. This paper will review all relevant issues concerned with businesses considering the utilization of the new cloud model.
Ethical behavior forms an important part of driving the success of cloud computing environment. Cloud provider has to guarantee that their professionals handling client’s data and software are dealt with in highly ethical manner. Businesses must be assured about the security and integrity of their data. Cloud providers must ensure that there is a mechanism to measure the ethical behavior of their employees in different sections of their corporate. Kouatli (in press) proposed such mechanism where AHP technique was utilized as a pair wise comparison to measure the relative ethical behaviors based on multiple criteria derived from “Security Best practices”.

Professionals who work with information in cloud technology have access to sensitive information and tools that are important to business operations. Implementation of the common ethics is still elementary as individuals are either unaware of unethical actions or ignore policies and regulations. Cultural background has a large influence on the typical employee(s) behavior in corporate life. For example, Al-Aali (2008) studied the effect of computer ethical behavior on individuals coming from Muslim cultures. Stahl (2010) also studied the emancipatory issues of ICT in a specific Egyptian culture. A statistical study by (Kouatli & Balozian, 2011) compared the practical perception of IT ethics as opposed to the academically taught perception of IT ethics. The study resulted in the main conclusion that the un-ethical violations were due to the existence of ill-defined boundaries of ethical and legal standards when the study was conducted.

After overviewing the cloud types and services from business perspectives, a guideline of issues associated with business to move to the cloud is explored. Code of ethics and its relation to cloud services also explored in this article together with a review of most common malicious attack due to unethical behavior. The move to the cloud requires supreme trust between businesses (the clients) and the cloud providers. This trust is not easily established. Cloud providers have to prove to their clients that all their professionals handing their data are of high ethical standards by maintaining the integrity of the data they are handling.

**Overview of Cloud Computing**

Cloud computing is the new concept of information technology utilization to drive businesses. The attraction of cloud computing to businesses is that it reduces the IT infrastructure cost of the company by immediately providing the services to the businesses and hence cutting the down time and cost to set-up process as well as reducing the required skills within the company. Cloud providers have proved to be very beneficial for the establishing businesses that have the urge to quickly grow in future. There are three different types of clouds and three different major services in the cloud.

**Types of clouds**

Large pools of resources can be connected via private or public networks to provide dynamically scalable infrastructures for application, data and file storage. Firms can choose to deploy applications on Public, Private or Hybrid clouds.

**Public Clouds**

Public Clouds operated by third-party providers, allowing customers to benefit from reducing infrastructure costs as it is spread across all users. The main advantage of public cloud infrastructures is that they are typically larger in scale than an in-house developed enterprise cloud, which improved the “on-Demand” scalability. As it is operated and managed by third
party, all customers share the same infrastructure configuration and security protection. Initial cost is minimal, but if data is stored for a long period of time, it proves to be expensive. Accessibility, availability and reliability criteria make the public cloud more popular than private cloud.

Private Cloud
Private clouds are specifically built for individual enterprise allowing them to host applications in the cloud, while addressing concerns regarding data security and control, which is often lacking in a public cloud environment. Initial cost is expensive, but gets minimal at later stages of using it as a service. There are two variations of private clouds: Externally-Hosted Cloud: facilitated by service provider with full guarantee of privacy. This environment preferred for organizations trying to avoid risks due to shared resources. Internal-Hosted cloud: (also called “On-Premises”) built within an organization’s own data center. Although there is limitation to size and scalability but complete control and configuration management under the internal administration.

Hybrid Cloud
Takes the best of both options where organization can partially or fully control the cloud provided by third-party cloud providers. Hence control Flexibility and on-demand scalability are available in this type of cloud.

Services of the Cloud
Cloud computing revolutionized the concept of Information technology delivery by introducing the cloud technology in a form of services. Similar to electric power service, cloud computing provided services where you “pay as you go” in a form of metered service. Businesses can choose from three main services offered by cloud providers, these are:

Infrastructure as a Service (IAAS)
IaaS is the cloud model in which an organization outsources the equipment used to support operations, including storage, hardware, servers and networking components. The service provider owns the equipment and is responsible for housing, running and maintaining it. Clients typically pays on a “per-use” basis, in return, service providers guarantee administrative automation as well as internet secure connectivity with dynamic scalability. IaaS is popular in the data center where software and servers are purchased as a fully outsourced service and usually billed on usage and how much of the resource is used - compared to the traditional method of buying software and servers outright, IaaS is an excellent mechanism to start the required business application quickly and with minimum cost and effort.

Software as a Service (SAAS)
Software as a Service (SaaS) is a Cloud model where software applications hosted by the service providers and made available to customers/subscribed organizations via the internet. SaaS becoming more popular as the web services like service oriented architecture (SOA) are well developed and maintains high reliability. Tremendous benefits from SaaS delivery starting from easier administration and hence lower maintenance costs. This would be inclusive of all necessary patches and updates, insuring compatibility across multiple platforms and more efficient collaboration via global accessibility.
Platform as a Service (PaaS)
Platform as a Service (PaaS) is an extension of SaaS. On top of SaaS, it is a way to rent hardware, operating systems, storage and network capacity over the Internet. PaaS allow customers to run their own application and/or develop and test new ones. This would result in benefits to developers where necessary operating system features can be updated whenever needed as well as allowing software development team to collaborate globally.

Globalized Business Issues on the Clouds

Reliable Internet Availability. Unless the internet connection is reliable and available all the times, business operations and data security and protection may be compromised.

Cloud Ethical standards: Technology always ahead of regulations. Cloud computing is of no exceptions. Code of ethics to protect data on cloud is not well developed yet and needs further study not only to provide policy and regulations but also to motivate and measure ethical behaviors.

Data Security: As there is no appropriate regulation to data protections, data storage security and protection is heavily dependent on trust between the business and the provider as well as a binding contract detailing the legal responsibility of the service providers in terms of security and protection of data. For example, businesses using service providers should be allowed to audit the data storage/backup procedure at the service provider’s site. The dilemma is that service providers may refuse such request due to confidentiality of services as well as other businesses privacy.

Password management: as Software as a Service (SaaS) provides applications from the cloud, the main risk would be multiple passwords accessing applications. Single sign-in would solve this problem but reduces access-ability in case a user left signed-on in one location, then the system wouldn’t allow the user to login from different location without formal sign-out from previous location.

Data encryption: Data encryption is recommended before data is sent to PaaS cloud providers. This would be necessary to ensure secure environment when using PaaS. However, this would result in slow system performance.

Full governance of IT services: Unless a good control of IT governance and access security by the organization, Un-warranted access of services by employees might result. Before joining the cloud services, businesses must have appropriate plan of access control to specific employees requesting specific service. Cloud service governance frameworks would be recommended to prevent employees accessing information or services they are not permitted to use.

Context Aware in a globalized business environment: Mobile devices like tablets and smart phones added huge advantage to running the businesses globally. Unfortunately, using such devices does not guarantee who, why and from where that specific customer or employee request to access specific information. Added complexity would be to identify the reason a user requesting information.

Accountability: Accountability for security and privacy in public cloud cannot simply be delegated to a cloud provider. Businesses must conduct careful planning of the security and
privacy aspects of cloud computing solutions before implementing them. To do this, full understanding of the public cloud computing environment offered by the cloud provider would be necessary. Cloud providers on the other hand has to Ensure that a cloud computing solution—both cloud resources and cloud-based applications—satisfy organizational security and privacy requirements.

Data Location and Replication: One advantage of cloud services is that business data are replicated in a multiple version across the globe in order to maintain backup and integrity of the date. However, the disadvantage of too many replication is that the professional themselves working for the cloud providers may not be aware of how many automated replica produced in the cloud. Moreover, a replica might be located in different countries where there is no clear legislation about data security and privacy. Businesses must be aware of this fact and must be discussed as part of contract negotiation with the cloud providers.

3.10-Auditing: Like all new IT systems, auditing cloud computing requires identification of risks, evaluate mitigating controls and audit the risky objects. A good framework (like ISACA’s IT Assurance Framework (ITAF™)) would be required to think about the IT risks and, thus, assist the IT auditor in conducting an effectual risk assessment. IT auditors must be from a third party auditing company and not an internal auditor from the cloud service providers. Businesses must insist to have access to the auditing report or may negotiate to involve their own business auditors in the process of cloud service provider’s auditing process.

Cloud Ethics

The above review of unethical/illegal IT attack techniques would be conducted by individuals who have a reason for such unethical behavior which might have been triggered by a situation in their working environment. For example, unethical behavior could be triggered by angry un-ethical individuals fired from their positions and/or a small business facing fierce competition...etc. To rectify and minimize this unethical behavior, it would not be enough to counterattack the malicious techniques by using anti-virus technology/techniques. Proper management would be necessary to rectify any possible problem in unethical IT behavior. Therefore, the issue is not really the malware technology, but it is rather people-ware problem (Shaw, Ruby & Post, 1998). Since the people are behind the creation and attack of the same systems, it would be necessary to conduct psychological analysis of the information systems criminals, in order to safeguard those systems.

As cloud computing business reliance increases, ethical implications would also increase. Privacy and security with cloud-based services are the main concerns. Data sharing for collaborative processing and analysis necessitates that steps must be taken to ensure only authorized personnel have access to the online data. Hence a full trust of ethical behavior of provider’s employees must exist in this case to avoid and violation in data access.

Common threat OF malicious behaviors

As most types of business Information technology, security would be the main issue which is more vulnerable when it comes to cloud computing. Hackers would have more opportunity to practice their malicious attacks to businesses using the cloud. It would be beneficial in this case to list the major malicious attacks that cloudy businesses could be subjected to. The list of all types of malware /hacking techniques is rather endless and the technical details are beyond the scope of this paper. Hence, only the major malwares and types of attacks will be reviewed in this section with minimal technical description of each.
**Computer virus:** the first time "computer virus" term created was in 1983, to depict a computer program that can "affect other computer programs by modifying them in such a way as to include a copy of itself" (Krebs-2003). The first PC virus created was launched by programmers in Pakistan in 1986. Viruses are passed on by user initiative, for example, by opening an email attachment. A simple text attachment cannot carry a virus. Viruses’ need executable files to insert themselves in the host computer. Hence, the harmful attachment is usually an executable file or office files that might have macro-command virus.

**Trojans** are malware masquerading as something the user may want to download or install, that may then allow a remote user to access and control the computer. For example, remotely pop-up the CD tray of the infected computer or reversing the functions of mouse buttons, or even read, alter, and copy the person's files without his or her knowledge.

**Worm:** Self proliferating program (without user initiative) surfing internet connection networks to find vulnerabilities on computers and install copies of them.

**A Logic Bomb:** is a hidden program in the target computer and set to trigger to destroy data at a future predetermined date and time. This is a much used technique of disgruntled employees after being fired. They just get their revenge from their employers, sometimes without being noticed.

**DDOS:** stands for distributed denial of service attacks, which prevent computer resources being available for intended users, by flooding for example web servers with more data than they can process, thus forcing websites offline.(parliamentary office-2006)

**Spyware:** is a program that records typed data from an infected computer, and then forwards the data back to the attacker, used in stealing passwords and credit card details.

**Botnets (or Zombies):** are network computers taken hostages by malwares, and remotely controlled, used usually to send spam e-mails and distributed denial of service attacks.

**Investigation Attacks:** A malicious intruder typically ping sweeps the target network to determine which IP addresses are alive. Then he uses a port scanner, to find out which network services or ports are active on the live IP addresses. After identifying the targeted system (operating system, infrastructure…etc.), the intruder identifies the possible vulnerability where he can easily determine the IP address assigned to a given target. The **ping** command tells the attacker what IP addresses are alive, in this case, packet sniffing used for **eavesdropping**. The information gathered by eavesdropping can then be used to pose other attacks on the network.

**Password Attacks:** Password attacks usually refer to repeated attempts by hackers to find passwords. Password attacks can be implemented using several methods, like brute-force attacks, Trojan horse programs, IP spoofing, and packet sniffers. Brute-force attack is the most popular technique, using a program that runs across the network. When an attacker gains access to a resource, he has the same access rights as the user whose account has been compromised. If this account has sufficient privileges, the attacker can create a back door for future access.

**Phishing:** Is one type of Social Engineering where data theft by phishing is the notion when a hacker tries to trick others into providing sensitive information, such as credit card numbers or passwords. The phisher disguised as a trusted party or a friend to access sensitive information.

**Man-in-the-Middle Attacks (also known as Session Highjack):** A **man-in-the-middle attack** requires that the hacker have access to network packets that come across a network. In
this case, the hacker just monitors the packets via packet sniffers until the time he/she needs to interfere (for example when a bank is ready to wire money or provide details of account number to a client). The hacker then masquerades himself as the recipient by altering the TCP session (also called session highjack). Man-in-the-middle attack alleviation is achieved by encrypting traffic in an IPsec tunnel, which would allow the hacker to see only cipher text.

**Masquerade/IP Spoofing Attacks:** Occurs when intruders create IP data packets with falsified source addresses. An attacker is usually outside the network pretends that he is a trusted party. Normally, an IP spoofing attack is limited to contamination of data or commands into an existing stream of data passed between a client and server application or a peer-to-peer network connection.

### Conclusion

In this paper, Business perspective of cloud computing has been reviewed. Issues of different services in the cloud have been explored with suggestions to businesses to be ready before joining the cloud. Moving to the cloud would require technical preparation as well as managerial issues. Full trust is essential between the business and their cloud providers. Ideally businesses may adopt private cloud for their sensitive data and public cloud for their generic non-sensitive operation. Trust would not be enough in most cases as the major criteria to join the cloud. Formal policy agreement has to be developed allowing businesses to have the right to audit the procedures and operations conducted by the cloud service providers to ensure best secure practice.

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Cost and Profit Efficiency and Management Behaviour of Commercial Bank (Evidence from Tanzania)

Abstract
Using non-parametric technique (DEA) for data from 1998 to 2011, I investigate the cost and profit efficiency and management behaviour of 25 Tanzanian commercial banks. I examine the influence of ownership, bank profile, size, and corporate structure on bank efficiency. The overall results show that commercial banks in Tanzania are relative more profit efficiency than cost efficiency. Domestic banks appear to be more cost efficiency while foreign banks appear to be more profit efficiency. Big banks found to be more cost and profit efficiency compared with small banks, and listed banks appear to be more cost efficiency than unlisted banks. On management behaviour, commercial banks in bank found to neither support “bad management” nor “bad luck” hypothesis.

Keywords: Tanzania commercial banks; cost efficiency; profit efficiency; bad luck; bad management, DEA

Introduction
In any economy, the financial sector is the engine that drives economic growth through efficiency allocation of resources to productive units. In recent years, African banks have experienced major transformation in both competition and its operating environment. Both external and internal factors have affected its structure and performance. Deregulation, technological change, and globalization of goods and financial market have affected all banks operations and accordingly have influenced bank efficiency.

Investigation of bank efficiency is important to both microeconomics and macroeconomic point of view (Berger and Mester, 1997). From the microeconomic perspective, the issue of bank efficiency is important; given the financial reform undertaken by Tanzania to allow, foreign banks to participate in market economy resulted to change in ownership in most of the banks. For macroeconomic, the bank efficiency is important due to the role it play as a financial intermediation and it’s important to the economy of developing countries where other financial sectors like stock markets and bond market not well developed.

This paper seeks to contribute to the banking efficiency literature in three folds. First, it examine a little explored case of African economy with banking sector that undergone major transformation. The period investigated is post privatization where number of banks changes ownership by either merger or acquisition. Second, I evaluate role of foreign banks, listed and unlisted, small and big banks that not evaluated previously. Third, I examine the management behaviour of the banks to evaluate the causes of inefficiency in banking sector.

Tanzania Banking Sector
Tanzania is a country formed by two former states (Tanganyika and Zanzibar). While Tanganyika has its independence from Britain in December 1961, Zanzibar had its
independence in December 1963 that survived for only a month before bloodshed revolutionary that overthrow Arab Sultan of Oman who was under British protectorate in January 12, 1964. In April 26, 1964, the two states merged to form a union and since known as United Republic of Tanzania (Tanzania). Nevertheless, Zanzibar remains with autonomous on all non-union matters, (matter that is not included in 1964 Articles of Union).

Tanzania economy show the impressive growth in recent years with a sustaining real growth of above 6 percent (6.7% in 2006; 7.1% in 2007; 7.4% in 2008, 6.7% in 2009; 6.5% in 2010 and 6.6% in 2011) well above the rate for sub Saharan Africa as a whole. Achievement of sustaining economic growth and preservation of macroeconomic stability represents major success, and significant improvements in many aspects of development. However, Tanzania remains a low-income country with per capita GDP below $700 in 2011. Service sector contribute 50.9 percent of the Tanzania economy followed by agriculture 26.4 percent and industry 22.6 percent.

Banking sector penetration in Tanzania is low by the international standards with bank branches concentrated in the economic heartland of the country, mainly in Dar es Salaam, Arusha, Mbeya, Mwanza and Zanzibar. Commercial banks in Tanzania could be subdivided into three major categories: large domestic banks; subsidiaries of the major international banks; and small banks. Banking industry is dominated by foreign banks and is much concentrated where five largest banks account for more than two thirds of assets, loans, and deposits. Out of big six (top six) it is only two banks, National Bank of Commerce (NBC) and Cooperative Rural and Development Bank (CRDB) have significant domestic share holdings. Despite the privatization policy that allows foreign banks to participate in banking industry, the banking market in Tanzania is still relatively small.

Banking Sector Reforms in Tanzania

Starting early 1990s, the Government of United Republic of Tanzania (URT) implemented series of reforms in financial and banking sector aimed at reducing its dominant in the role of financial sector. This followed by poor performance of the state owned financial sector in the late 1980s where the non-performing loan reached to 65 percent of the loan portfolio, fiscal and operations were not separated and missing of an appropriate regulatory. With the passage of the Banking and Financial Institutions Act in 1991, private banks were permitted and the Bank of Tanzania (BOT) was vested with supervisory and regulatory controls to ensure the development of the prudent banking activities (Cull and Spreng, 2011). Following the Banking and Financial Institution Act of 1991, the first major foreign bank (Standard Chartered) started its operations in 1992, with other international banks following- Stanbic (1993), Citibank (1995), Barclays (2000) and other several small banks. Banking and Financial Institution Act of 2006 repeal and replace the 1991 Act. The new Act aimed to restructuring and modernizing banking industry in order to foster competition and enhance financial development, ensuring macroeconomic stability and long-term growth.

In 1996, the Cooperative and Rural Development Bank (CRDB) became the first state owned bank to be privatized. By 2000, the financial sector in Tanzania has been transformed with the banking industry leading the dynamism through expanded branch network, scope of operations and number of banking institutions (Simpasa, 2008). The fast expansion of banking institutions reflects the incentives created by removal of entry barriers.
Literature in bank efficiency is based in two approaches. The first measures efficiency in terms of economies of scale and scope, and the second measure efficiency using the efficient frontier concept, or X-efficiency. This paper uses non-parametric efficiency measure developed by Charnes et al., (1978).

Non-Parametric Approach: Data Envelopment Analysis (DEA)

For decades, Data Envelopment Analysis (DEA) has become a very popular linear programming technique used as an invaluable benchmarking tool in examining efficiency in banking industry. Leibenstein and Maital (1992) argue that DEA is the superior method for measuring overall technical inefficiency. Data Envelopment Analysis is a deterministic methodology for determining the relatively efficient production frontier based on the empirical data on chosen inputs and outputs of a number of entities called Decision Making Units (DMUs). Since the original study by Charnes et al., (1978) considerable amounts of published, research-using DEA has appeared.

Emrouznejad et al., (2008) evaluates research in efficiency and productivity for 30 years using DEA and evidence that there are 1621 papers published in 20 journals that have published the greatest number of DEA papers. They further evidence that the number are increased from time to time where from 1995-2003 the number of publication was 226 per year and increased to reach 360 per year from 2004-2006.

Charnes, Cooper, and Rhodes (1978) introduce CCR-Model. This model measures the efficiency of each DMU, which obtained as a maximum of a ratio of total sum of weighted outputs to total sum of weighted inputs. Consequently, the efficiency can be defined as follow.

\[
\text{Efficiency} = \frac{\text{Weighted sum of outputs}}{\text{Weighted sum of inputs}}
\]

The weights for the ratio are determined by the restriction that the similar ratios for every DMU have to be less than or equal to unity, thus reducing multiple inputs and outputs to a single “virtual” input and single “virtual” output without requiring pre-assigned weights. Therefore, the efficiency score is a function of the weights of the “virtual” input-output combination. Suppose that there are \( n \) DMUs, each with \( m \) inputs and \( s \) outputs, relative efficiency score of a given DMU0 is obtained by solving the following linear programming model.

\[
\begin{align*}
\max h_0(u, v) & = \sum_{i=1}^{s} v_i y_{i0} \\
& \quad \text{subject to} \\
& \quad \sum_{i=1}^{m} u_i x_{i0} = 0 \\
& \quad \sum_{i=1}^{m} u_i x_{ij} \leq 1 ; j = 1,2, \ldots, n \\
& \quad \sum_{i=1}^{m} u_i x_{i} \geq 0 ; i = 1,2, \ldots, m \\
& \quad v_r \geq 0 ; r = 1,2, \ldots, s
\end{align*}
\]
where
\( x_{ij} \) = the amount of input \( i \) utilized by the \( j \)th DMU
\( y_{rj} \) = the amount of output \( r \) produced by the \( j \)th DMU
\( u_i \) = weight given to input \( i \)
\( v_r \) = weight given to output \( r \)

Following the Charnes Cooper transformation (1962), one can select a representative solution \((u, v)\) for which

\[
\sum_{i=1}^{m} u_i x_{i0} = 1
\]

Hence, the denominator in the efficiency score \( h_0 \) shown above is set equal to one, the transformed linear programming model for DMU0 can be written as follow.

\[
\max z_0 = \sum_{r=1}^{z} v_r y_{r0}
\]

subject to
\[
\sum_{r=1}^{z} v_r y_{rj} - \sum_{i=1}^{m} u_i x_{iy} \leq 0 ; j = 1,2,\ldots,n
\]
\[
\sum_{i=1}^{m} u_i x_{i0} = 1
\]
\[
u_r \geq 0 \quad r = 1,2,\ldots,s
\]
\[
u_r \geq 0 \quad r = 1,2,\ldots,s
\]

The linear programming model shown above will be run \( n \) times in identifying the relative efficiency scores of all the DMUs. Each DMU selects input and output weights that maximize its efficiency score. Generally, a DMU is considered efficient if it obtain a score of 1.00, implying 100% efficiency; whereas a score of less than 1.00 implies that it is inefficient. Maximizing the fraction from equation (5.2) can be accomplished by minimizing the denominator of the fraction and normalizing the denominator to one (Lehman et al., 2004).

\[
\min \sum_{r=1}^{m} u_i x
\]

Subject to:
\[
\sum_{r=1}^{z} v_r y_{r} = 1
\]
\[
- \sum_{r=1}^{z} v_r y_{rj} + \sum_{i=1}^{m} u_i x_{iy} \geq 0, \quad j = 1, 2\ldots n
\]
\[
u_r \geq 0 \quad r = 1,2,\ldots,s
\]
\[
u_r \geq 0 \quad r = 1,2,\ldots,s
\]

The duality theory from linear programming suggests that there is a dual program for each original linear program and the solution are always equal (Gale et al., 1951)

**DEA for Profit Maximization**

The profit-maximization problem of a multiple outputs, multiple inputs firm facing inputs and outputs prices \( w \) and \( p \), respectively, can be formulated as the following DEA problem:

\[
\max \sum_{r=1}^{m} p_r y_{r} - \sum_{i=1}^{n} w_i x_i
\]
Subject to \[
\sum_{j=1}^{N} \lambda_j y_{ij} \geq y_r \quad (r = 1, 2, \ldots, m);
\]
\[
\sum_{j=1}^{N} \lambda_j x_{ij} \leq x_i \quad (i = 1, 2, \ldots, n);
\]
\[
\sum_{j=1}^{N} \lambda_j = 1;
\]
\[
\lambda_j \geq 0; \quad (j = 1, 2, \ldots, N).
\]

The profit maximizing input and output quantities \(x_i^*(I=1,2,\ldots,n)\) and \(y_r^*(r=1,2,\ldots,m)\) are obtained along with the other decision variables \(\lambda_j^* \quad (j =1,2,\ldots, N)\) at the optimal solution of this problem. An important point need to be noted in this context is that, the optimal value of the objective function \(\Pi^* = p'y^* - w'x^*\) is the maximum profit that the firm can earn.

**Tests for Management Behaviour**

Following Berger and De Young (1997) examination of problem loan and cost efficiency in commercial banks, this study examines the relationship between loan loss provision and bank efficiency for Tanzanian commercial banks. The possible relationships between the variables entail different mode of management behaviour. This management behaviour is measured by testing the four hypotheses, namely bad luck, bad management, skimping, and moral hazard. However, this study limited only to the measure of bad luck and bad management for similar reasons pointed out by Podpiera and Weill (2008). First, small sample size used under this study compel to exclude the lagged variables for capitalization form the equation explaining loan loss provision and cost efficiency. Second, inclusion of capitalization intends to measure the moral hazard, which is not included in this study. Third, Berger and De Young (1997) argue that capitalization should be included in the model to avoid biasness owing to omitted variables. Nevertheless, the problem of omitting variables could be observed only when OLS estimation is used. This study uses the GMM dynamic panel estimators, which take care for the problem of omitted variables. In order to test the hypotheses, Granger causality framework consistent with the data employed. The Granger causality model under this study is specifies as follow:

\[
LLP_{i,t} = f_1 (LLP_{i, \text{lag}}, \ldots, EFF_{i, \text{lag}}) + \varepsilon_{LLP_i,t} \quad (1.5)
\]
\[
EFF_{i,t} = f_1 (LLP_{i, \text{lag}}, \ldots, EFF_{i, \text{lag}}) + \varepsilon_{EFF_{i,t}} \quad (1.6)
\]

Where, LLP is the loan loss provision to total loan, EFF efficiency scores that measure management behaviour.

Equation 1.5 above measures the bad management hypothesis and therefore this study predicts s to have negative relationship between loan loss provision and lags of the bank efficiency scores. A positive relationship between these two variables suggests skimping behaviour. Literature suggests that the more efficient banks to have a skimping behaviour. On the other hand, equation 1.6 tests the bad luck hypothesis and therefore expected to have inverse relationship between cost efficiency and lags of the loan loss provision. From equation 1.5 if the total effect of cost efficiency is negative and significant, the bad management hypothesis is concluded. Thus, bad management is tested using the estimated parameters of the equation 1.5 and bad luck hypothesis is tested using the estimated parameter of equation 1.6.
**Data Description**

Data used in this study comprises commercial banks operating in Tanzania that are listed in the Bankscope database over the period 1998-2011. This database reports published financial statement from financial institutions worldwide.

**Empirical Results**

**Cost and Profit Efficiency Scores**

Table 4.1 presents an average cost and profit efficiencies estimates for commercial banks in Tanzania over the period 1998 – 2011. High level of relative average cost and profit efficiencies scores with low standard deviation suggests that most of the banks lie close to the benchmark of frontiers.

<table>
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<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Std. Dev.</td>
<td>Mean</td>
<td>Std. Dev.</td>
<td>Mean</td>
<td>Std. Dev.</td>
<td>Mean</td>
<td>Std. Dev.</td>
<td>Mean</td>
</tr>
<tr>
<td>Panel A: All banks</td>
<td>0.8219</td>
<td>0.1537</td>
<td>0.8259</td>
<td>0.2155</td>
<td>198</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panel B: Local banks</td>
<td>0.8320</td>
<td>0.1768</td>
<td>0.7986</td>
<td>0.2478</td>
<td>72</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panel C: Foreign banks</td>
<td>0.8204</td>
<td>0.1646</td>
<td>0.8294</td>
<td>0.2788</td>
<td>129</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panel D: Old banks</td>
<td>0.7958</td>
<td>0.3023</td>
<td>0.8776</td>
<td>0.2431</td>
<td>45</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Panel E: New banks</td>
<td>0.8245</td>
<td>0.1485</td>
<td>0.8127</td>
<td>0.2333</td>
<td>135</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panel F: Big banks</td>
<td>0.9132</td>
<td>0.2029</td>
<td>0.8961</td>
<td>0.3165</td>
<td>43</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panel G: Small banks</td>
<td>0.7972</td>
<td>0.1748</td>
<td>0.8085</td>
<td>0.2650</td>
<td>140</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panel H: Listed banks</td>
<td>0.9536</td>
<td>0.1366</td>
<td>0.7958</td>
<td>0.4982</td>
<td>28</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Panel I: Unlisted banks</td>
<td>0.8071</td>
<td>0.1706</td>
<td>0.8279</td>
<td>0.2385</td>
<td>154</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Panel A of the Table 4.1 illustrate that mean cost efficiency is 0.8219 while profit efficiency is 0.8259. The results show substantial levels of inefficiency demonstrating that commercial banks in Tanzania have opportunity to improve their performance. The results suggest that banks in Tanzania have slacks and are not fully utilizing the available resources to produce the same level of outputs. The cost efficiency mean score of 0.8219 suggests that, an average bank in Tanzania has a cost inefficiency of 0.1781 which indicating that commercial banks in sample could further reduce cost by 17.28 percent for the same level of output with the best practice banks.

The results signify that average commercial bank in Tanzania could have used only 82.19 percent of the resources actually utilized to produce the same level of output. Thus, there is a
room for banks to cost savings if they had employed their inputs more efficiently and
managed to choose proper input mix as against their competing demands.

The average profits efficiency score is 0.8259 suggesting that there is an inefficiency of
0.1741, which put forward that banks could further improve their profits by 17.41 percent to
match its performance with the most profit efficient banks.

The overall results of cost and profit efficiency score noted that commercial banks in
Tanzania banks are relatively more profit efficient than cost efficient. That mean banks are
more efficient in using their ability to generate profits than using their resources to reduce
costs. These results also suggest that there is deterrioration in cost efficiency where it drop
from 100 percent in years 1998 and 1999 to reach 69.56 percent in year 2011 as shown in
figure 4.1.

Fig. 4.1 Cost and Profit Efficiency of Commercial Banks in Tanzania

Note: CE= Cost Efficiency, PE= Profit Efficiency

Efficiency of Domestic versus Foreign Banks

The comparison of domestic and foreign banks findings reveal that domestic banks are more
cost efficient than foreign banks while foreign banks are more profit efficient than domestic
banks. The average cost efficiency score of domestic banks is 0.8320 and average profit
efficiency score is 0.8990 while mean score of cost efficiency for foreign banks found to be
0.8204 with standard deviation of 0.1135 and mean score of profit efficiency of 0.9378 with
standard deviation of 0.0586.

These results imply that an average domestic commercial bank in Tanzania could further
reduce their costs by 16.8 percent compared with foreign banks, which can further reduce
their cost by 17.96 percent for the same level of output. On the contrary, average profit
efficiency score of domestic banks found to little lower compared with that of foreign banks.

The average score is 0.7986 for domestic banks suggest that for domestic banks to match
their performance with most profit efficient banks they could further improve their profits by
20.14 percent compared with foreign banks that could further improve their profits by 17.06
percent. Thus, the results suggest that on average domestic commercial banks in Tanzania is
less profit efficiency in compared with foreign banks by 3.08 percent. The results is partial...
verified by Okeahalam (2008) who provide evidence that foreign banks in Tanzania are more efficient compared with domestic banks.

**Fig. 4.2 Cost and profit efficiency of Local and Foreign banks in Tanzania**

![Graph showing cost and profit efficiency of Local and Foreign banks in Tanzania](image)

**Efficiency of Old versus New Banks**

Panel D and E of Table 4.1 contain summary statistics on age and overall efficiency of cost and profit scores of commercial banks in Tanzania. The results show that, new banks are relatively more cost efficient than old banks. The mean score cost efficiency of new banks is 0.8245 compared with mean score of 0.7958 of the old banks. These results implies that for the old banks to effectively compete with the most cost efficient banks, they need further reduce their cost by 20.42 percent while for the new banks they should further reduce their cost for 17.55 percent.

The results from profit efficiency scores show that old banks are relatively more profit efficient compared with new banks with mean score of 0.8776 compared with that of new banks, which show mean score of 0.8127. The interpretation of the scores is that for old banks to match its performance with the most profit efficient banks, they need further improve their profits by 12.24 percent while new banks need further improve their performance by 18.73 percent. Overall, these results reveal that, new commercial banks in Tanzania are more cost efficient while old banks are relatively more profit efficient.

**Fig. 4.3 Cost and profit efficiency of Old and New banks in Tanzania**

![Graph showing cost and profit efficiency of Old and New banks in Tanzania](image)
Efficiency of Big versus Small Banks

Empirical studies provide mixed and inconclusive results on relationship between size of the banks and efficiency scores. While some studies evidenced that large banks are the most cost and profit efficiency (Tecles and Tabak, 2010; Manlagnit, 2011) some evidenced that small banks are profit efficiencies than medium and large banks (Mamatzakis et al., 2008). This section presents the impact of bank size on efficiency scores for commercial banks in Tanzania.

Panel F and G of Table 4.1 show that on average big banks are more cost efficient than small banks. The mean scores of the big banks are 0.9132 while that of small banks is 0.7972. The findings of these results suggest that for an average big commercial bank to improve and meet the level of most cost efficient banks it need further reduce its cost by 8.68 percent while for an average small bank further improve its efficiency and compete with the most cost efficient bank it need further reduce its cost by 20.28 percent.

The findings on profit efficiency demonstrate that the scores for the big commercial banks are more profit efficient than small banks. The profit mean score for big banks is 0.8961 compared with mean score of 0.8085 for small banks. These findings implies that for the big banks to match with the most profit performance banks it needs further improve their profits for 10.39 percent compared with small banks that needs further improve their profits by 19.15 percent. Thus, the findings unveil that the big banks in Tanzania are highly cost and profit efficient compared with the small banks. Hence, big banks are well utilized their resources to produce the same level of outputs as well using their ability to improve their profit compared with small banks.

Fig. 4.4 Cost and profit efficiency of Big and Small banks in Tanzania

Efficiency of Listed versus Unlisted Banks

The results on panel H and I of the Table 5.6 demonstrate that listed commercial banks in Tanzania are more cost efficient than unlisted commercial banks. The results show a mean score of 0.9536 for the listed banks compared with mean score of 0.8071 for unlisted banks. Thus, these results suggest that for listed banks to operate at the maximum efficiency they needs further reduce their cost by 4.64 percent while unlisted banks needs further reduce their costs by 19.29 percent for the same level of output.
The results on profit efficient scores of the listed banks show that, the listed commercial banks in Tanzania are less efficient compared with unlisted commercial banks. The mean score of listed commercial banks is 0.7958 compared with mean score of 0.8279 for the unlisted banks. These results suggest that for the listed banks to match their performance with the most profit efficient banks they need further improve their profits by 20.42 percent and for the unlisted banks to go with most profit efficient banks they need further improve their profits by 17.20 percent.

These results imply that listed banks relatively more cost efficient and relatively less profit efficient compared with unlisted banks. Thus, listed banks are more efficient in utilizing their resources to reduce costs but slightly less efficient in using their ability to generate profits. The results partly verified a market hypothesis that banks whose shares are listed at stock market are more efficient to compare with those whose share are not listed at stock market as listed banks show high level of cost and profit efficiencies.

**Fig. 4.5 Cost and profit efficiency of Listed and Unlisted banks in Tanzania**

![Graph showing cost and profit efficiency of Listed and Unlisted banks in Tanzania]

**Empirical Results in Management Behaviour**

Bad luck hypothesis suggests that exogenous events reducing asset quality as a result caused a decrease in cost efficiency. Thus, bad luck hypothesis envisages that the sum of the lagged loan loss provision to total loan coefficient in cost efficiency should be negative. The focus is on the sum of the lagged coefficient because the sum measure the total effect of past loan loss provision to total loan on current cost efficiency.

**Testing for “Bad Luck” Hypothesis**

Table 4.2 presents estimate of Granger causality test in the X-efficiency and test for bad luck when exogenous increases in loan loss provision resulted to reduction in bank cost efficiency. Results for commercial banks in Tanzania show positive coefficients to the lags of the loan loss provision to total loan implying that change in loan loss provision to total loan used as a proxy for non-performing loan do not Granger cause changes in cost efficiency. This finding, therefore, inconsistent with the bad luck hypothesis, in which non -performing loans persuade cost efficiency.
Testing for “Bad Management” Hypothesis

According to Berger and De Young (1997) bad management hypothesis predicts the sum of the coefficients on the cost efficient lags in the non-performing loan should be negative suggesting that inefficiency take place before towering non-performing loans. A negative sign to the sum of the relationship between loan loss provision and the lagged cost efficiency indicates bad management. When the sum of the coefficient happened to be positive, skimping hypothesis, prevail. Table 4.2 reports the results from testing bad management hypothesis. The lagged sum of the cost efficiency show positive coefficients, suggesting that the bad management hypothesis do not apply for commercial banks in Tanzania. Thus, bad luck or bad management does not cause the inefficiency of commercial banks in Tanzania. The results suggest that there might be other cause of inefficiency, which may be skimping or moral hazard, which no tested by this study.

<table>
<thead>
<tr>
<th>Country</th>
<th>Tanzania</th>
<th>Tanzania</th>
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<tbody>
<tr>
<td><strong>Bad Luck Hypothesis test</strong></td>
<td><strong>Bad Management Hypothesis test</strong></td>
<td></td>
</tr>
<tr>
<td>Intercept</td>
<td>0.463498***</td>
<td>3.2809***</td>
</tr>
<tr>
<td></td>
<td>[0.1160485]</td>
<td>[0.61627]</td>
</tr>
<tr>
<td>Δ CE&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>0.399272***</td>
<td>Δ LLP-L&lt;sub&gt;t-1&lt;/sub&gt;</td>
</tr>
<tr>
<td></td>
<td>[0.143848]</td>
<td></td>
</tr>
<tr>
<td>Δ CE&lt;sub&gt;t-2&lt;/sub&gt;</td>
<td>-0.108291*</td>
<td>Δ LLP-L&lt;sub&gt;t-2&lt;/sub&gt;</td>
</tr>
<tr>
<td></td>
<td>[0.0595104]</td>
<td></td>
</tr>
<tr>
<td>Δ CE&lt;sub&gt;t-3&lt;/sub&gt;</td>
<td>-0.0516409</td>
<td>Δ LLP-L&lt;sub&gt;t-3&lt;/sub&gt;</td>
</tr>
<tr>
<td></td>
<td>[0.0409236]</td>
<td></td>
</tr>
<tr>
<td>Δ CE&lt;sub&gt;t-4&lt;/sub&gt;</td>
<td>0.0014281</td>
<td>Δ LLP-L&lt;sub&gt;t-4&lt;/sub&gt;</td>
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<tr>
<td></td>
<td>[0.0355527]</td>
<td></td>
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<tr>
<td>Δ CE&lt;sub&gt;total&lt;/sub&gt;</td>
<td>0.240768</td>
<td>Δ LLP-L&lt;sub&gt;total&lt;/sub&gt;</td>
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<tr>
<td></td>
<td>[0.018]</td>
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<tr>
<td>Δ LLP-L&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>0.003278***</td>
<td>Δ CE&lt;sub&gt;t-1&lt;/sub&gt;</td>
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<td></td>
<td>[0.0016561]</td>
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<tr>
<td>Δ LLP-L&lt;sub&gt;t-2&lt;/sub&gt;</td>
<td>-0.0020176</td>
<td>Δ CE&lt;sub&gt;t-2&lt;/sub&gt;</td>
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<td></td>
<td>[0.0024915]</td>
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<tr>
<td>Δ LLP-L&lt;sub&gt;t-3&lt;/sub&gt;</td>
<td>0.0005769</td>
<td>Δ CE&lt;sub&gt;t-3&lt;/sub&gt;</td>
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<td></td>
<td>[0.0018431]</td>
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<tr>
<td>Δ LLP-L&lt;sub&gt;t-4&lt;/sub&gt;</td>
<td>-0.0000864</td>
<td>Δ CE&lt;sub&gt;t-4&lt;/sub&gt;</td>
</tr>
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<td></td>
<td>[0.0005194]</td>
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<tr>
<td>Δ LLP-L&lt;sub&gt;total&lt;/sub&gt;</td>
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<td>Δ CE&lt;sub&gt;total&lt;/sub&gt;</td>
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<tr>
<td></td>
<td>[4.718]</td>
<td></td>
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<tr>
<td>AR(1) (P-value)</td>
<td>0.0075</td>
<td>AR(1) (P-value)</td>
</tr>
<tr>
<td>AR(2) (P-value)</td>
<td>0.3568</td>
<td>AR(2) (P-value)</td>
</tr>
<tr>
<td>Sargan (P-value)</td>
<td>1.0000</td>
<td>Sargan (P-value)</td>
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</tbody>
</table>

Notes: ***, **, and * denote significant at 1%, 5%, and 10%, respectively. Standard errors are in parentheses

Conclusions

Tanzania has adopted significant financial sector reforms over the last two decades to adopt market economy policy framework championed by IMF, WB, Western countries, and their Allied International Agencies. Banking industry is one of the affected sectors that result to
almost all banks to change their ownership and controlled by small group majority shareholders in most case foreigners. While there is abundant of cost and profit efficiency in US and Europe, there are very few studies done in Africa as general and to my knowledge, there is no such kind of study done in Tanzania in particular. Therefore, the main objective of this study is to fill the gaps in the literature to help address issues in Tanzania banking efficiency.

The findings of this study provide interesting results. Taking all banks together, banks in Tanzania found to be more profit efficiency than cost efficiency, while domestic, listed, and new banks found to be more cost efficiency than their counterparts were. On bank management behaviour, the result show that inefficiency of banks in Tanzania is not caused by neither bad luck nor bad management hypothesis.

References

The Gender Perception Differences towards TV Commercials in Iran

Abstract

This study examines the gender perception differences towards TV commercials in Iran. The basic purpose was to ascertain the reliability and discriminative capability of five adjectives (Informative, Exciting, Appealing, Amusing, Irritating) on 40 Iranian TV commercials on the perception of their viewers. In the development of the perception, researcher often uses “t”-test to ascertain the discriminative power of the adjectives. The study indicates that in general there are no gender perception differences towards TV commercials in Iran. The only differences found on the male viewers for some products, including feminine hygiene. This type of study will enable the industry to measure the pulse of the general consumers from time to time. Knowledge of these in different segments of society will help the industry and advertising agencies in the development of creative strategy and media planning for targeting specific groups. Therefore, the long-term goal of the industry should be to improve its performance over time.

Key Words: Iran, Advertising, Perception, TV Commercials

Introduction

Advertising in this era of modernity has gained profound recognition and importance all over the world as an indispensable tool of business. It is needless to say that on account of establishment of small scale as well as large scale of industrial units all over the globe and production of thousands of goods and services the importance of advertising has increased in the corporate world today. Mohd Hamdan (1991) defines advertising as “a dissemination of any message particularly through mass media, paid by business or any other institution that wishes to increase the profitability than those targeted by these messages will behave or believe as the advertisers’ desire them to behave or to believe”. Mohan (1989) defines advertising as “dissemination of information concerning as idea, services or product to compel action in accordance with the intent of the advertiser”. The Definition Committee of the American Marketing Association (1948) states “advertising is any paid form of non-personal presentation of ideas, good or service by an identified sponsor”. Advertising is believed to have influenced and manipulated consumer’s everyday lives (Packard, 1957). It has provided advertising agencies the sill in influencing buyers thought processes and purchasing decisions. Advertising Association stated “advertising as a means of making known in order to buy or sell goods or services”. Institute of Practitioners in Advertising in Britain explains “advertising presents the most persuasive selling message to the right prospects for the product or service at the lowest possible cost? (Jefkins, 1982)

Hence advertising plays an important role in peoples’ lives either directly or indirectly, in particular the broadcasting media. Television commercials are enlisted with a staggering array of sensory and sensual rich images and computer graphic – all designed to elicit and emotional response in viewer that both grabs their attention and helps communicate the
The Gender Perception Differences towards TV Commercials in Iran

advertising message (Bruzzone & Tallyn, 1997). Television advertising has been characteristic as a familiar and trusted medium of communication and played an important role in people’s lives by bringing information and entertainment into living rooms. It has contributed to shaping our social and culture understanding of the world, provided us with a forum of shared experiences and defining historical moments, and continually raised issues of construction of media discourses (Losifidis, 2007). Television being one of the most influencing media has been a topic of study by numerous researchers. It was found that people differ in their attitude towards television advertising in general. Some have negative while others have positive attitude towards television advertising. Viewers differ in the degree to which they are negative or positive about television advertising. Bauer and Greyser (1968) states that the reasons could be economic and social contributions of advertising, in that advertising is viewed as an essential activity, helping to raise the standard of living, and ultimately resulting in better products for society. This is also agreed by Kover, Goldberg, and James (1995) as they found that the most important characteristic of creative and effective advertising was that it elicited positive feelings in the viewers related to their self-image. This is agreed by Burdus (1981) based on reports by United Kingdom Advertising Association surveys, that there is a slight increase in the number of people who approve of advertising. The particular culture and economic characteristics of television advertising demand that the advertiser provides the merit of goods and services.

Television commercials convey much of their power through visuals. Yet little has been done to research the viewer’s perception in television commercials in different cultural contexts. Television is often called "king" of the advertising media, since a majority of people spends more hours watching TV per day than paying attention to any other medium. TV has proven its persuasive power in influencing human behavior time and time again. Advertising being the most visible part of business in general and marketing in particular has been both praised and criticized by people associated with business and non-business fields. Over the years, the public perception of advertising has become very negative. It is seen as a medium that inherently promotes a lie.

Measuring audience perceptions for TV commercials has become even more important with the emergence of video technologies where the viewer have the option of mechanical zipping. However, this is not possible for TV. Another reason for measuring audience perception is the question of clutter i.e. placing a number of advertisements one after the other. Most of the TV commercials appear in clutter before or between the popular serials and there is a strong possibility of irritation on part of the viewers when their popular programmes are interrupted by the intrusion of commercials. If a negative attitude is developed because of these reasons towards the commercials then the purpose of airing them will become self-defeating and their effectiveness will decrease substantially. One possible offshoot of negative feelings towards the commercials may because in the form of public support for stringent Government regulations.

The primary objective of the present study is to measure the perception of Iranian male and female audience on TV advertising as they are exposed to it through various mass media vehicles. More specifically the researcher has come out with other following objectives with regard to the various facets of advertising.

To study the viewer’s reaction towards TV commercials.
To measure the perception of the viewers in terms of five adjectives i.e. amusing, irritating, appearing, convincing and informative.
To find out why some commercials are like and some disliked by the consumers.
To study how and in what way these commercials are received and perceived by the audience.
To study the perception of TV commercials in terms of male and female respondents from Iran and to find out any statistically significant differences on five adjectives
To make overall compression on the perception of Iranian male and female viewers on each of the five adjectives

**Literature**

Before embarking about the role of advertising in marketing, we should get a basic impression of what advertising is. Advertising is bringing a product (or service) to the attention of potential and current customers. Advertising is typically done with signs, brochures, commercials, direct mailings or e-mail messages, personal contact, etc. Advertising is a major "phase" of overall product or service development and management. Advertising is specifically part of the "outbound" marketing activities, or activities geared to communicate to the market, e.g. advertising, promotions, public relations (McNamara, 2004).

Advertising play an important role in human daily life especially in globalization age. The ability of the advertising is depends on the evolution of technology means that the advancement of technology will increase the ability of advertising.

Over the past century, researchers have developed many theories to explain how advertising helps a firm enhance its market power. Three main views have emerged: the informative, complementary, and persuasive view of advertising (Bagwell, 2005). Fareast DDB Company did research on consumer behaviors towards advertising. They found that the mass media advertising that people preferred to consume the information was television.

Historically, the systematic study of attitude toward advertising in general has been rooted in the work of Bauer and Greyser (1968). Bauer and Greyser’s work demonstrated that attitudes toward advertising in general consist of two belief dimensions, economic and social effects, and found that attitudes are normally based on consumers’ beliefs regarding the social effects of advertising and the economic effects of advertising. In order to be purposeful, advertisement appeals should bring out association with the feeling and physiological motives of the viewers or prospective consumer (Bansal, & Taneja, 2005). Nevertheless, the ability of advertisement in influencing potential buyers’ emotions and behaviors will be dependent upon their perceptions and attitudes. People’s attitudes vary and are influenced by their perceptions. In the case of television advertising, certain individuals may possess negative attitude towards it whereas others may have positive ones. Therefore, understanding viewers’ attitude towards advertising particularly via the television media is important to marketers.

There are many studies on public opinion about the advertising broadcasted by television stations. As a first view, it should be pointed out that results of such analysis do not always coincide. For instance, Moriarty and Duncan (1991) found that only 7% of total TV viewers pay commercials total attention. But others discovered that interest on advertising depends on its adaptation to audience profiles (Gal-Or et al., 2006, Esteban & Hernandez, 2007).

This study demonstrates the positive effects of moment -to-moment entertainment and the negative effects of moment-to-moment information value on consumers' likelihood to
continue watching during a television commercial. A notable finding is that both the entertainment and the information value have a strong multiplicative effect on the probability to stop viewing. A high EV (Entertainment Value) ensures that consumers continue viewing the commercial, and a high IV (Information Value) induces consumers to stop viewing. Consumers who stop viewing a 30-second TV commercial after a few seconds may still have been exposed long enough to the brand and to the key message to learn about the brand. However, there is evidence that stopping TV commercials before their natural end erodes their effectiveness in terms of lower brand recall and recognition (Elpers, Woltman & Rik 2003).

Methodology

The basic purpose was to ascertain the reliability and discriminative capability of five adjectives (Informative, Exciting, Appealing, Amusing, Irritating) on 40 Iranian TV commercials on the perception of their viewers. In the development of the perception, researcher often uses “t”-test to ascertain the discriminative power of the adjectives. However, due to certain practical difficulties they used a less stringent method for this purpose. These 40 Iranian commercials along with their questionnaire were shown to six management teachers, on account of their theoretical and practical insight in the field. They were apprised of the objectives of the study. In the light of the objectives, the teachers were requested to carefully go through these commercials and critically evaluate each questionnaire. In order to accomplish the above stated objectives the researcher has formulated certain hypothesis. As the purpose of this study is to measure the perception of Iranian viewers on five adjectives, the researcher thought in appropriate to compare the perception on those adjectives, which have positive correlation with those of negative correlations. Therefore, the following hypotheses have been formulated.

**H₀₁**
There is no gender difference in the perception of TV commercials by Iranian viewers on five mentioned adjectives.

**H₁₁** There is gender difference in the perception of TV commercials by Iranian viewers on five mentioned adjectives.

The researcher had surveyed various studies in this area and found one research instrument most suitable for the purpose of the present study, which was developed by Khan and Khan (2002). Researcher have preferred the direct self-report measurement techniques i.e. Likert scale, because it is assumed that the direct scales are superior to the indirect scales in terms of reliability and validity (Lemon, 1973; Petty & Cacioppo, 1981; Stevens, 1966). The use of Likert type scale also allows inclusion of large number of diverse statements believed to be necessary to comprehensively measure all types of constructs.

As a result, it has been considered that the Likert scale is the most popular form of attitude scales (Edwards & Kenny, 1946; Petty & Cacioppo, 1981; Schiffman & Kanuk, 2002). In this study a five-adjecitives of reaction “Informative”, “Exciting”, “Appealing”, “Amusing” and “Irritating” was used, to measure the perception of viewers towards TV commercials.

Table 1. The Breakdown of Each Statement With Respect to Different TV Commercials constructed by Author based on Likert scale.

<table>
<thead>
<tr>
<th>Very much</th>
<th>Informative</th>
<th>Neither informative</th>
<th>Not informative</th>
<th>Not at all</th>
</tr>
</thead>
</table>

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informative (5) | (4) | nor uninformative (3) | (2) | informative (1)
--- | --- | --- | --- | ---
Very much exciting (5) | Exciting (4) | Neither Exciting nor unexciting (3) | Not Exciting (2) | Not at all exciting (1)
Very much appealing (5) | Appealing (4) | Neither Appealing nor not appealing (3) | Not appealing (2) | Not at all appealing (1)
Very much amusing (5) | Amusing (4) | Neither Amusing nor not amusing (3) | Not Amusing (2) | Not at all amusing (1)
Very much irritating | Irritating (4) | Neither Irritating nor not irritating (3) | Not Irritating (2) | Not at all irritating (1)

In order to facilitate proper understanding of the questionnaire, 40 commercials were shown to the respondents and they were given a questionnaire which contents of all the commercials along with five scale point of their like or their dislike on five adjectives for every commercial. The respondents from Iran were shown Iranian commercials.

All these commercials were grouped under the following product categories:

Textiles and Garments
Cosmetics and personal care products
Medicinal and health care products
Foods/snacks and soft drinks
Toothpaste etc. Toiletries
Consumer durables

After the questionnaire was developed, the next research dimension was to administer it to a representative sample of the population from Iran. As it was difficult to administer the questionnaire on the entire national populations, therefore, the selections of cities were largely based on the convenience and easy approach by the researcher. The procedure of selecting the sample is given below.

For this purpose the researcher has drawn the samples from Iran. The researcher keeping the viability as well as easy approachability decided to draw samples from two Iranian cities i.e. Tehran and Qum. Tehran being the capital city of Iran as well as the researcher also hails from Tehran itself and having close as well as personal contacts with people residing there. Qum was chosen because it is only 120 Km from Tehran hence it was relatively easy to administer the questionnaire among the Iranian residing. researcher randomly selected 1000 telephone numbers and could succeed in contacting 550 respondents, 204 agreed to cooperate, and only 154 respondents visited the place where the TV commercials were to be screened thus they also filled up the questionnaire. The researcher for each sitting again invites 50 people in which she could be able to explain them the purpose of the study and what they are suppose to do . Similarly the researcher selected 500 telephone numbers and contacted 320 respondents from Qum, 189 agreed and finally 145 respondents agreed and gave appointment to visit and fill up the perceptual questionnaire & so researcher succeeded in collecting the required information from 120 respondents hailing from Qum. Thus the researcher succeeded in drawing a total sample of 596 respondents representing Iranian
population. The breakup of the total Iranian sample comprises 299 representing male &
female respondents.

<table>
<thead>
<tr>
<th>Sample</th>
<th>City</th>
<th>Selected</th>
<th>Contacted</th>
<th>Agreed</th>
<th>Final Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iran</td>
<td>Tehran</td>
<td>1000</td>
<td>550</td>
<td>204</td>
<td>154</td>
</tr>
<tr>
<td></td>
<td>Qum</td>
<td>500</td>
<td>320</td>
<td>189</td>
<td>145</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1500</strong></td>
<td><strong>870</strong></td>
<td><strong>393</strong></td>
<td><strong>299</strong></td>
</tr>
</tbody>
</table>

In order to measure the perceptions of TV viewers the entire list of 40 commercials with
brand names is prepared and the respondents were shown these on a video in home settings.
These commercials were placed randomly in the questionnaire. After viewing the
commercials the respondents were asked to rate each commercial on a five point rating scale
for each of the five adjectives i.e. amusing, irritating, appealing, convincing and informative.

After collecting the data from the questionnaire on viewer’s or respondent’s perception
towards various facets of advertising the next step was to analyze the raw data. As the data
were on a likert type scale it was decided to convert the raw data into the tables and mean
scores of groups of respondents were calculated for each statement on each dimensions.
In order to measure the perceptions of TV viewers the entire list of 40 commercials with
brand names is prepared and the respondents were shown on a video in home settings. These
commercials were placed randomly in the questionnaire. After viewing the commercials the
respondents were asked to rate each commercial on a five point rating scale for each of the
five adjectives i.e. amusing, irritating, appealing, convincing and informative. The
respondents were explained how they should rate each commercial on each adjective. For
example, 1 stood for “extremely”, 2 for “very”, 3 for “some what”, 4 for “not very”, and 5 for
“not at all” for that adjective. This means if a respondent rates a particular commercials on
amusing 2, irritating 4, appealing 1, convincing 2, and informative 3, it means that particular
commercial has been considered by that respondent as “very amusing”, “not at all irritating”,
“extremely appealing”, “very convincing” and “some what informative”. Next the scores of
each respondent were added up and a mean score of each respondent was calculated for each
adjective for that commercial. The mean score for each commercials for each adjective was
also calculated in terms of male & female respondents. The analysis was carried out with
respect to the respondent on overall rating of all TV commercials on five adjectives, then
gender wise analysis of commercials on each adjective with respect to Iranian respondents
and categorization of commercials on high to low perception on each adjective. In order to
find out any significant differences, the researcher uses a “t-test” as list of significance. The
results and analyses are discussed in detail in the analysis chapter.
The present study describes the summery of results on the following facets of advertising:

1) High to low informative appearance of TV commercials on the perception of TV viewers
2) High to low exciting appearance of TV commercials on the perception of TV viewers
3) High to low appealing appearance of TV commercials on the perception of TV viewers
4) High to low amusing appearance of TV commercials on the perception of TV viewers
5) High to low irritating appearance of TV commercials on the perception of TV viewers

The summary of results follows the following pattern:
Gender differences among Iranian respondents or viewers on the perception of commercials on five adjectives

**Analysis of data**

The overall result of the t-test analysis shows that this study is well constructed and it is well represented as reflected in the variables selected. Table 3, the summary table on t-test analysis indicated that among 40 TV commercials there are significant differences between male and female Iranian perception on the following advertising on five adjectives.

Table 3. Gender difference among Iranian viewers on the perception of TV commercials on five adjective dimensions.

<table>
<thead>
<tr>
<th>Adjective</th>
<th>Ads with significant differences</th>
<th>Mean Scores</th>
<th>“t” Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Informative</td>
<td>Pager (Cheep)</td>
<td>2.96</td>
<td>3.35</td>
</tr>
<tr>
<td></td>
<td>Payman (Cookies)</td>
<td>1.82</td>
<td>2.15</td>
</tr>
<tr>
<td>Exciting</td>
<td>Panasonic (Camera)</td>
<td>3.7</td>
<td>3.37</td>
</tr>
<tr>
<td>Appealing</td>
<td>LG (TV)</td>
<td>2.72</td>
<td>3.13</td>
</tr>
<tr>
<td></td>
<td>Pager (Cheep)</td>
<td>2.87</td>
<td>2.63</td>
</tr>
<tr>
<td></td>
<td>Pegah (Ice Cream)</td>
<td>1.95</td>
<td>2.23</td>
</tr>
<tr>
<td></td>
<td>Aleet (Non Sticking)</td>
<td>2.17</td>
<td>2.57</td>
</tr>
<tr>
<td>Amusing</td>
<td>Heza Daneh (Tomato Puri)</td>
<td>2.67</td>
<td>2.33</td>
</tr>
<tr>
<td></td>
<td>Geelan (Shampoo)</td>
<td>2.65</td>
<td>2.33</td>
</tr>
<tr>
<td></td>
<td>Pager (Cheep)</td>
<td>3.05</td>
<td>2.63</td>
</tr>
<tr>
<td>Irritating</td>
<td>Daryan Dasht (Tomato puri)</td>
<td>3.5</td>
<td>3.07</td>
</tr>
<tr>
<td></td>
<td>Ardakan (Material)</td>
<td>2.52</td>
<td>2.78</td>
</tr>
</tbody>
</table>

As far as the informative adjective is concerned, we can see the statistically significant differences on two commercials i.e. “Pager” and “Payman” with their “t” scores of (3.70), (2.16).

As far as the exciting adjective is concerned, there is only in one case where we can see the statistically significant differences i.e. “Panasonic camera” with the “t” value of (2.43).

As far as the appealing adjective is concerned, there are some differences in the perception of male and female viewers. In four commercials we can find the statistically significant differences which are “LG TV”, “Pager cheep”, “Pegah ice cream”, Aleet non sticking”.

As far as the amusing adjective is concerned, one can easily realize the statistically significant differences on three commercials. Those commercials are “Heza Daneh”, (2.49) “Geelan” (2.21), “Pager” (2.53”.

As far as the irritating adjective is concerned, the differences were found on two commercials which are “Daryan dasht” and Ardakan with the score of (2.41) and (2.03).
Conclusion & Findings

The main purpose of the present study was to find out the perception of viewers from Iran on the different five adjectives and if there is any significant differences between male and female. The current study examined several types of reasons for people disliking TV advertising. Television advertising in general is evaluated differently not only by people of different age, income and education level but also the gender of viewers also has an implication on attitude towards TV advertising. Peoples’ perception also varies in term of their belief about TV advertising. People dislike advertising because commercials are repeated too often, or they cannot completely trust the way products are depicted and they find it to be intrusive. Generally people would dislike TV advertising if they find it not relevant to their needs or self-images as reflected in their personalities and interests.

In general viewers' perception toward most commercials can be captured by three factors. The three positive factors suggest distinct ways to generate favorable attitudes toward a commercial. One is to make it entertaining, a second is to make it warm, and a third is to make it personally relevant.

The negative perception on male viewers' apparent resentment of advertising for some products, including feminine hygiene products, female undergarments, and stomach and hemorrhoid products.

In this study, the researcher found that in most of TV commercials there is no significant difference between male and female and mostly they do have similar perception towards TV commercials.

Most of the TV commercials are more irritating than informative.

Most of the TV commercials are exciting than appealing and amusing.

Carrying this type of study will enable the industry to measure the pulse of the general consumers from time to time. Knowledge of these in different segments of society will help the industry and advertising agencies in the development of creative strategy and media planning for targeting specific groups. At the same time, the practice of advertising should be improved and its credibility has to be enhanced among its recipients.

Finally, this research has tried to demonstrate that there are some people who always think the positive consequence of advertising and at the same time there may be others who think negatively the consequences of advertising whatever the industry and agencies do to improve its credibility. Therefore, the long-term goal of the industry should be to improve its performance over time.

One of the oldest marketing dictums is that “the customer is always right”. Efforts are required to make changes in not only practice but to change public perception to the extent that the customers are right about advertising’s role in encouraging materialism, erosion of values, promoting false and misleading advertisements, depicting women as sex objects and in stereotypical roles and finally influencing the tender minds of children.

Future studies may take this into their research objectives and should measure the perception and attitudes of various groups of consumers on these aspects of advertising.
References

The purpose of this study is to examine the gender differences in green purchasing behavior from a Lebanese consumer perspective. Data was collected using online questionnaire from any Lebanese consumer with independent purchasing power. According to Hofstede’s national cultural categorization of Lebanon, it is considered a male dominant culture. Understanding the gender difference in this country will add value to the green marketing literature. The results of this study indicated that female consumers scored higher than male consumers in relation to green purchasing behavior and the environmental concern and attitude. Conclusion, limitation and future direction are discussed.

Keywords: green purchasing behavior, environmental concern, and attitude

INTRODUCTION

Unlike what has been happening in the West, consumers in the Arab and Asian Western Countries are just at the stage of green awakening. Mostafa (2007) stated that consumers in the Arab World and Egypt are at the green awakening stage compared with consumers in the West. According to McEachern and McClean (2002), green consumerism is a complex concept that includes, decreasing of pollution, environmental preservation and sustainable use of nonrenewable recourses. Concerns over environmental humiliation have been increasing for the past few decades (Chan and Lam, 2002). People have become more environmentally awake after recognizing how serious ecological problems are (Han, Hsu & Lee, 2009). Follows and Jobber (1999) suggested that environmental consciousness can affect consumer behavior.

Green as vision is a reality which needs more functional understanding; and in return it will allow marketers to develop marketing strategies designed to satisfy the needs of green consumers (D’Souza, 2004). Because of the growing in the green consumer segments in the markets, marketers are considering the green consumer segment as their target segment (Mostafa, 2007). “Green” is a term that is alternatively called “environmentally friendly, environmentally responsible and eco-friendly (Manakotla & Jouhari, 2007; Pizam, 2009).
Mostafa (2007) suggested that it is the right time for consumer research that will examine the gender differences in green purchasing behavior in the Arab / Non Western context. Studies examining gender differences in environmental values and perception are very limited (Wehrmeger and McNeil, 2000). The absence of market information about a foreign market is always a major obstacle to a successful international expansion of green products, as claimed by international green marketers (Gurau and Ranchhod, 2005). Furthermore, gender difference in Western context should not be applied to Arab context for the reason of cultural differences. In this research paper we will examine gender differences in green purchasing behavior, environmental concern and environmental attitude. This research will help fill the gap of information needed for a successful green marketing in the Arab context. From a practical point, the findings of this study will try to provide guidance to advertisers and green marketers about gender differences characteristics of their target segments.

Drawing on previous literature review of gender studies, it is suggested that the main theory that explains gender difference is the Gender Socialization Theory the same as Social Rule Theory. The socialization theory suggests that the behavior of individuals is anticipated by the process of socialization by the means of which individuals are shaped by gender expectations of a special cultural context (Zelenzy, Chua and Aldrich, 2000). To our day, gender roles have habitually been distinguished in including a division between culture and nature. Davidson and Freudenberg (1996) stated that environmentalism’s gender differences are not universal. The process of socialization theory starts during young ages and continues into the adulthood of a person, whereby it influences the choice of occupation, response to science and technology and family roles, specifically from the perspective of environmental concerns (Davidson and Freudenburg, 1996). With respect to the socialization process, men play the economic providers role and are concerned about economical problems than environmental ones, while women play the health and safety providers role and are more concerned about environment threats.

Evolutionary psychology is also suggested to explain sex differences in people behavior (Han, Hsu and Lee, 2009). Other scholars claims that value orientation accounts for the gender differences in environmental concern between men and women (Stern et al., 2005).

**CONCEPTUAL BACKGROUND AND HYPOTHESES DEVELOPMENT**

**Environmental Attitude**

It is generally implicit that environmental attitude is the rational judgment of people toward environmental protection’s value (Lee, 2009). Kotchen and Reiling (2000) found that attitudes are important interpreters of behavior, behavioral intention and factors that explain the variation in the behavior of individuals. Many studies examined the relationship between environmental attitudes and environmental behaviors. The literature suggests contrasting evidence about the relationship between environmental behavior and attitude. On the other hand, moderate relationship between environmental attitudes and ecological behavior (Smith et al., 1994) and weak relationship (Berger and Cabrin 1992) were identified. Konrad et al. (2000) argued that because of the existing gender role between males and females, attitudes differ significantly. Tikka et al (2000) found that Western Females express more positive
environmental attitudes than Western Males do. Zelezny et al (2000) reported that women have greater environmental attitudes than men do across different countries. Thus, we propose that:

\[ H1: \text{Lebanese Female consumer would express higher positive environmental attitude than Lebanese Male consumer.} \]

**Environmental Concern**

It is an important attribute that can represent an individual’s compassion, like & dislike and wornness about his or her environment. Environmental concern ranges from low unconcerned to highly concerned individual, measured using the new environmental paradigm (Milfont and Duckitt, 2004). Schulte (2000) stated tripartite factors of environmental concern, the egostic (concern for the self), altruistic (concern for the people) and the bio-spherical (concern for the biosphere). Stern and Dietz (1994) stated that the previous three factors are the classification of ecological value orientation; which is defined by Thompson and Barton (1994) as the motivational concern expression for environmental issues which are based on the conception of the relation between the individual and the environment. The more the environmental concerns the more such concerns lead to increase in environmental friendly purchase behaviors (Kalafatis et al., 1999; Manaktola and Jauhari, 2007; Laroche et al., 2001). Seguin et al. (1998) found that the environmental concern factor can have a momentous influence on the individual motivation to behave in a way that can alleviate environmental problems. Laroche et al. (2001) found that women are more environmental concerned and more willing to pay for environmentally friendly products than men. Women are more concerned toward environmental issues compared to men (Muhai, 1992). Thus to propose the following relation:

\[ H2: \text{Lebanese Female consumer would express higher positive environmental concern than Lebanese Male consumer.} \]

**Green Purchasing Behavior**

With the increase in environmental problems, consumers are trying to help solve such problems with their individual behaviors. According to Dagher and Itani (2012) consumer’s green purchasing behavior is a behavior consumers can use to help sustain their environment. Numerous studies about environmental consumption have found that women make more recurrent eco-friendly purchasing decisions compared to what men do (McIntyre et al., 1993; Banerjee & McKeage 1994). Compared to men, women participate more in pro-environmental behaviors (Widegren, 1998; Steel, 1996). Lee (2009) concluded that adolescent females rated significantly higher than adolescent males in green purchasing behavior. Thus we propose the following relations

\[ H3: \text{Lebanese Female consumer would express higher positive green purchasing behavior than Lebanese Male consumer.} \]

**RESEARCH METHODOLOGY AND RESULTS**

We used an online questionnaire in this study and a total of 135 questionnaires were sent and 101 complete questionnaires were returned and analyzed in this study. The questionnaire was
divided into four parts: the first measured the environmental attitude, the second measured
the environmental concern, the third measured the green purchasing behavior, and the fourth
part included the demographic section. To measure the green purchasing behavior,
environmental attitude and the environmental concern we adopted the items from Lee (2008).
All items were measured on five point Likert scale. Results of the reliability coefficient for
the three factors were satisfactory and in line with the results in Lee’s study.

Our target sample was any Lebanese consumer with independent purchasing power. From the
101 respondents, 58.4% were males and 41.6% were female. The age of the majority was
between 20 and 30 years (60.4%). More than half the respondents were single and 62% of the
respondents hold a bachelor degree.

**Hypotheses testing**

To examine the proposed relations in H1- H4 we conduct a comparison of means. Hypothesis
1 proposed a high positive environmental attitude for female than for male. The results
indicate a high score (3.20) for female than for male (2.98). Thus H1 is supported.
Hypothesis 2 proposed a high positive environmental concern for female than for male. The
comparison between the two means indicated that female scored higher (2.55) than male
(2.25). Thus H2 is supported. Hypothesis 3 proposed a high positive green purchasing
behavior for female than for male. The results indicate that female demonstrate a positive
green purchasing behavior higher (2.98) than the male (2.71). Thus H3 is supported.

**DISCUSSION**

The results of this study highlight the importance and the necessity to investigate the gender
differences in environmental attitude, environmental concern, and green purchasing behavior.
Lebanon is one of the Arab countries and the results of this study will add to the green
marketing literature from a non-western country perspective. The results indicated that the
female in this male dominant culture is taking green actions more than the male. It is
generally implicit that environmental attitude is the rational judgment of people toward
environmental protection’s value (Lee, 2009). The results of this study indicated a higher
environmental attitude for female than male providing additional support to previous studies.
Konrad et al. (2000) argued that because of the existing gender role between males and
females, attitudes differ significantly. Tikka et al (2000) found that Western Females express
more positive environmental attitudes than Western Males do. Zelezny et al (2000) reported
that women have greater environmental attitudes than men do across different countries.

As to environmental concern factor, the results indicated that females are more environmental
concerned than males and this will lead to an increase in environmental friendly purchase
behaviors (Kalafatis et al., 1999; Manaktola and Jauhari, 2007; Laroche et al., 2001). This
was further supported with Hypothesis 3 in which female indicated a higher purchasing
behavior than male. This result supports previous results, Laroche et al. (2001) found that
women are more environmental concerned and more willing to pay for environmentally
friendly products than men. The results of this study will provide insights and guidelines
from a Lebanese consumer perspective to both practitioners and scholars.
LIMITATION AND FUTURE STUDIES

As any study this study has limitations. The first limitation is the sample size; the sample is small so future studies will need to increase the sample size so that the results can be generalizable. The data is self-reported, future studies will be probably directed to collected data while the purchasing behavior is taking place. For example, future data can be collected from consumers in a mall or at the entrance of the mall. Finally, testing factors such as national culture or personality type as moderator or mediator will help us improve our understanding of the green purchasing behavior.

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The Misadventures of Accounting Education, Professional Structures and Governmental Options

ABSTRACT

In the face of growing concern with the discrepancy between the number of accounting graduates and the market needs, the present paper is an attempt to trace the recent history of the relationships among the three parties involved namely, the accounting faculty, professional bodies and governmental agencies. The decision of university students to enroll in programs of accounting education ultimately depends not only on the quality of the education offered, but also on the prospects of a future carrier, including perceived conditions, monetary compensation, self-satisfaction, the extent of freedom of action within the confines of regulations, etc. The paper reveals that despite many attempts and changes which occurred over the past 30 years much remains to be done through the concerted efforts of various parties concerned.

Keywords: Accounting programs, ethics courses, requirements for the CPA exam, the stance of professional bodies, Sarbanes-Oxley Act and federal intervention.

Introduction

With the surge of international trade to unprecedented heights and the rapid rise of globalization it was expected that the accounting profession would not only occupy its specific niche, but also it seemed a sure thing that the demand for professional accountants would increase, outpacing the supply. However, and contrary to expectations, the number of professionally well-prepared accountants decreased as evidenced by the decrease in the number of candidates for the CPA exam. The disparity between the anticipated demand and the actual numbers of accountants employed by the market is certainly the result of the complex interrelationship between the accounting education, professional bodies and pertinent governmental agencies.

The hazardous future of the accounting education

In the 1990s the American Institute of Certified Public Accountants (AICPA), the Big 5 accounting firms, the American Accounting Association (AAA), and the Institute of Management Accounting (IMA) sponsored a project, which led to the publication of Albrecht and Sack’s “Accounting education: Charting the course through a perilous future” (2005) wherein, based on collected data on the enrollment and salaries of accountants, the authors found that students did not choose accounting because five years of education costs too much money, and because students did not perceive the compensation they would receive after graduation as sufficient. In addition, the authors found that the practitioners and the accounting faculty did not believe that they were compensated enough. Perhaps the most surprising finding in the “Perilous” was its evaluation of the impact of the rule of 150 hours. Given the changes intervening from the profession, the insistence on 150 hours was almost
The education of accounting (and possibly ethics) not only had to attract students, but also had to protect itself against scandals. The American business scandals of 2001 and 2002, especially those of Enron and WorldCom, had left many investors drowning in red ink, hence there were strong demands from the government “to do something”. Consequently, and upon the suggestion of Paul Spyros Sarbanes, a member of the Democratic party and senator of Maryland from 1977 to 2007, and Mike Oxley, a member of the Republican party, a former agent of the FBI and a member of the House of Representatives, the congress passed a comprehensive new law known as the Sarbanes-Oxley Act (SOX, Sarbox or SOA) which not only introduced changes in the accounting of quoted firms and in the protection of investors, but also ushered in enormous changes. Passed in 2002, SOX finally deprived the auditing profession (specifically the AICPA) from the power to make its own rules. The government had finally assured the responsibility to write the standards for auditing publicly trading companies, a responsibility that the AICPA had previously assumed. Thus, the period of auto-regulation of the profession was brought to an abrupt end.

In the same year in which the Sarbanes-Oxley Act was passed, the National Association of the State Boards of Accounting (NASBA) pointed out the need for more uniformity in the educational conditions for the CPA exam, which was followed in 2005 with a draft proposal for updating of accounting through the uniform act of accounting (UAA). The response of the AICPA and its sister state societies towards the proposed changes was negative, and actually called for the withdrawal of the proposal. In the face of the created opposition, NASBA offered several compromises which included the reduction of the minimum number of hours of upper division courses in accounting to 27 (with 30 hours as minimum requirement for accounting as a whole) and the minimum hours of upper level courses in business to 30. There were no more prescribed hours for subjects, however NASBA had added more subjects to the curriculum including fraud examination, internal controls, analysis of financial statements, research and analysis of accounting, research and analysis of taxes, business communication, statistics, and technical writing. NASBA also offered two options for the inclusion ethics in the program: either an autonomous course of three hours or an autonomous course of three hours plus three hours of ethics integrated in the entire study program. While the suggestion of NASBA to require a specific program of university education bothered some observers, it was the condition of ethics which stirred passions more. Many criticisms were levied against the inclusion of ethics courses in programs of business/accounting studies. A poignant criticism of ethics as taught in business schools came from Jennings, a well-respected business ethicist, who noted that the courses of ethics have not concentrated on the “moral absolutes” or “the ethics of virtue” such as honesty, fairness, or even pointed out the ill-effects of false impressions in the presentation of financial information, which meant that the offered courses fell short of expectations.
The complex relationship between the accounting profession, professional bodies and the federal government

The history of the interrelationship between the accounting profession and higher education of accounting on one hand, and the government in the United States on the other hand has always been complicated and complex, while the advantages of the interaction to various parties concerned has not often been so evident. The accounting education is intimately associated with professional activism and it has often been changed by the influence of practitioners. In the light of the failures in the practice of accounting, the profession has lost its right for auto-regulation. The government has been for a long time hesitant to interfere in the professional conditions of accounting, however once the government has taken upon itself the task of regulation, it is unlikely that the amount of regulation will ever decrease, on the contrary it is expected to increase continuously. Yet sadly, there is no reason to believe that the government itself will do a better job with the control of accounting profession which will be positively reflected on the education of accounting than that done by professional organizations.

There is no doubt that at this juncture in time civilization, technology, and accounting have to function together in the face of global real-time integrated information systems. Many aspects of the 21st century accounting may be unfamiliar to today’s professional leaders, partially due to the little change in accounting education since Pacioli’s “Summa”s which appeared in 1494 and 1523. Hence no wonder that starting in the 1980s accounting educators, practitioners and institutions have repeatedly stressed the need for curricular changes to meet current and future marketplace demands.

In 1986 AAA’s Committee of Future, Structure, Content, and Scope of Accounting Education indicated in its study “there is little doubt that the current content of professional accounting education, which has remained substantially the same over 50 years, is generally inadequate for the future accounting professional. A growing gap exists between what accountants do and what accounting educators teach…”

In 1989 a “white paper” issued by the Big 8 entitled “Perspectives on Education for Success in the Accounting Profession” reflected the growing concern about the current and future state of accounting education. As a practical step towards the remedy of the situation it was decided to invest $5 million to help create the Accounting Education Change Commission to redirect the focus of accounting education. Unfortunately, despite expectations, the efforts sponsored by the Big 8 exerted only a short-lived impact.

In 1994 a joint research project of the institute of Management Accountants (IMA) and Financial Executives International (FEI) entitled: “What Corporate America Wants in Entry-Level Accountants” found out that the accounting curricula offered by most business schools fell short of expectations in terms of the preparation of graduates for successful careers in corporate America.

In 1996 a report of the American Assembly of Collegiate Schools of Business (AACSB) Faculty Leadership Task Force revealed that “the primary problem is that faculty skills are not aligned with the rapidly changing needs of business… Although school and faculty competences have advanced, the gap between practice and academic research and teaching has widened…”
In 1998 the study of AAA “The Future Viability of Accounting Education, Report of the Changing Environment Committee” indicated that “In recent years, various stakeholders have voiced numerous concerns that business and accounting education have not changed with the changing demands of the market for graduates… The education that served past graduates will not prepare today’s graduates for the demands of the twenty-first century”.

In the year 2000 a joint project of AAA, AICPA, IMA, and the Big 5 audit firms indicated that the accounting education is plagued with many serious problems and if those problems are not promptly addressed and overcome, they will lead to the demise of accounting education, that the quality of students joining the accounting programs are not as used to be, that the accounting education as currently structured, is outdated, and needs to be modified and that both graduates and practicing accountants would not major in accounting if given a chance to pursue their education over again.

The worries and warnings expressed in the articles referred to above, along with other such warnings by prominent accountants, had very little impact. Hence, except for changes undertaken by institutions, accounting education stayed the same over the last 30 years. Though accounting graduates are frequently successful in getting full-time employment upon graduation, this fact cannot be considered as an indicator that there are no problems with accounting education. The fact that the market need of accounting graduates is greater than the supply and that often the graduates of complementary majors are being hired to do the job of professional accountants is undeniable. Certainly weaknesses in accounting curricula and pedagogy or the inadequacy of the monetary rewards and dissatisfaction with the profession have been the primary causes of the problem.

Technological developments, especially those that have significantly alleviated many constraints of communication (by reducing time, space, cost allocations, etc.) and have increased the speed of information transfer, coupled to giant strides towards globalization, have necessitated not only the introduction of vital curricular changes in accounting education, but also the urgency to keep pace with research and technical developments.

Concluding remarks

In the face of all shortcomings and mishaps, it seems that only through the concerted efforts of academicians, professional bodies and interested governmental agencies will it be possible to address existing deficiencies and to introduce the needed curricular changes, professional control measures and federal regulations which ultimately will redress the discrepancy between the market demands for well-prepared accountants and actual numbers of accounting graduates.

As an academician with a life-long commitment to the teaching of accounting, I believe that it is the duty of the accounting faculty to initiate changes which should include:

(a) Modification of the accounting curricula to address content, changing technologies and attitudes.

(b) Provision of students with the basic academic preparation on which they should be taught how to add during their years of study as well as later on as they enter into the market and assume their professional roles.

(c) Tailoring academic programs to the needs of the “clients” which include the students, their future employers and the professional market.
(d) Faculty development to allow the faculty to keep abreast of all developments that would enable them to discharge their duties fully. The accounting faculty should also act as the catalyzer of requisite changes expected from professional bodies and governmental agencies that will in due time ensure the provision of the market with academically well-prepared, knowledgeable and ethical accountants in sufficient numbers to preclude the need to employ graduates from other disciplines to discharge the duties of accountants.

References

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Abstract
This paper examines consumer preferences and expectations of convenience store (CVS) attributes using Sri Lanka as a case study. Both online customer survey and external survey are conducted. The surveys show that middle aged males, medium to high income, are the key segments of CVS. The demand from residential neighborhoods, followed by private and international schools, contributes to revenue more than others. The access convenience and transaction convenience are the salient attributes for both males and females. Possession convenience is also crucial, but likely to applicable more for female. The results imply that managers should pay more attention on access and transaction convenience, particularly location, hours of operation and fast services. Innovative methods of communicating with the targets are needed to redress cultural challenges in the country and to keep the steady flows of customers. Cross selling and up selling with the fast moving products could be an option to increase a basket value of customers.

Key Words: Consumer preference, attributes, convenience stores, Sri Lanka

Introduction
Convenience store (CVS) has become one of the popular formats of retail trade around the globe. The success of CVS has been spread from developed countries to developing...
countries as a result of changes in several social trends, including more women participating in workforce, greater income in a country, and advanced technology. Time pressure also makes consumers to give value for quick and easy shopping.

Recently, this trend has spread into relatively low income countries, including Sri Lanka. The structure of the retail market in these countries was traditionally featured by mum and pop shops. The industry was, then, becoming highly competitive with an introduction of supermarkets. However, with the change of the social fabric, the consumer and their level of sophistication was changing rapidly in these countries. For example, the number of working women in the metros was increasing and their contribution to the labor force was financially rewarded which resulted in more and more females entering into the labor market. The growth of the new urban middle class with the expansion of job opportunities also resulted in a new breed of consumers, which are relatively time poor, and quick to change loyalties based on dissatisfaction. Thus, the over reliance on the super market industry has created a vacuum in the market for a more convenient form of providing a retail experience to the consumers. In Sri Lanka, for example, the first convenient stores, named Go-Getter, was introduced in 2006, with the recognition of these shifts in the consumer behavior. Today there are more than 200 outlets of the convenient stores in the country and is expected to increase more in the next few years.

Although CVS in relatively low income countries have become more popular, so far, there has been no systematic study to clearly understand preferences and expectations of consumers in these countries. Most of the studies are concentrated only on developed countries (e.g. Sparks, 2000; Welsh et al., 2003; Rapp and Islam, 2006). In fact, consumer preferences of products and services as well as consumer expectation of convenience store tend to vary from country to country. Applying information from developed countries, or even from emerging countries, to relatively low income countries could result in an unsustainable expansion of this new retail trade business in the country. Particularly, misunderstanding behavior of consumers could lead to poor strategic management, especially in terms of picking up the wrong location, emphasizing the wrong products and target group etc.

Thus, this study aims to examine consumer preferences and expectations of convenience store attributes in developing country using Sri Lanka as a case study. Both Online customer survey and External (potential customer) survey are used in this study. Online Survey is mainly for different levels of customers, both male and female, who have already purchased goods from convenience store, while External survey is conducting interviews for both existing customers and prospective customers of the convenience store. Our findings would shed some lights on the proper demand management, including proper location, customer groups, and range of the products etc., of this new form of retail trade in relatively low income country. Emphasizing these salient attributes is, therefore, essential for managers of convenience store, both local and prospective international CVS chains, to have proper demand strategy for sustainable expansion of the business.

The rest of the paper is organized as follows. Section II briefly presents literature survey relating convenience store. Section III provides the picture of retail trade, especially convenience stores in Sri Lanka. Methodology used in this study is presented in Section IV. Section V discusses the findings while the last section provides conclusion and policy inferences.
Literature Survey

Despite the growing importance of convenience concept, literature relating to this issue, especially in the retail marketing is relatively limited and mostly focuses on developed countries. There are two key areas relating to demand management in convenience store literature, namely dealing with need of convenience in the retailing market; and attributes to customer satisfaction.1 For the first area, Reilly (1982); Yale and Venkatesh (1986); Brown (1989); Gross and Sheth (1989) argue that convenience is any process in retail market to reduce time and effort of consumers during their shopping process. They show that many factors lead to a higher demand for convenience concept in retailing market. These include an increase in the number of working women and their contribution to the labor force, which means women have less time but more income, (2) The growth of the new urban middle class with the expansion of job opportunities; (3) lives of consumer becoming more complex with less time for shopping; (4) more people living by in smaller families or even alone. Such findings tend to support establishment of CVS in both developed and developing countries.

1 In fact, success of convenience store is related to both demand and supply management. There is literature e.g. Chan et.al (2005) highlights factors of core competencies, including supply-side factors for success of CVS, i.e. an innovative and open-minded management philosophy; optimized logistics and supply chain management; integrated information system; franchise system; location orientated expansion strategies; value categories management; strategic marketing and excellent customer services.

The second literature examines series of factors leading to customer satisfaction, especially in convenience stores. Different factors are found in the literature. Sparks (2000); Welsh et.al (2003) and Rapp and Islam (2006) for example, show that customer service, cleanliness of the store, product assortment, appearance of the store and employee are crucial for providing customer satisfaction. Pan and Zinkhan (2006) suggest that many factors affect consumer expectation, including product quality, store atmosphere, store location, price level, check out speed, hours of operation, friendliness of seller, and parking facilities. Lumpkin and Burnett (1991) argues that there is no significant relationship between low price offering and retail store choice while Sirohi and McLaughlim (1998); Baker et.al (2002) point out that consumer perception of product and service quality is positively related to store patronage. Berry et.al (2002) also argue that all type of convenience that reduce consumer time or effort in shopping are crucial, including payment condition, credit availability, hours of operation, and parking and store access.

Seiders et.al (2000) provide broader factors by pointing out four key dimensions for convenience in retailing market, namely access convenience; search convenience; possession convenience; and transaction convenience. The first one refers to the concept of speed and ease of reaching a store. This includes location, parking availability, store hours, telephone and internet access. Lassak (2000) shows that inconvenient location tends to discourage customers to patronize a convenience store. The second refers to the concept of speed and ease of identifying and selecting products. Store design and layout, product displays, knowledge of sellers, customer interactive system are crucial factors in ensuring customer satisfaction.

Third, the speed and ease of obtaining desired products. Stock position and timely delivery are the key elements in leading to obtaining desired products. A vast variety of goods and
services in one store, or the so called one stop shopping concept, is also crucial for store choice. This factor, in some study e.g. Stassen et.al (1999), is pointed out to be more crucial than price set by retailer. The last dimension, i.e. transaction convenience, refers to speed and ease for affecting transaction. Fast checkout and professional services of employee are important in affecting this dimension. Well designed payment methods, quick services, trained employee are key element in reaching the transaction convenience. The saliency of convenience store across nations tends to vary. There is limited study on salient attributes of convenience store in developing countries. Bianchi (2009) tries to understand consumer expectations of convenience store in Latin American countries, Chile. The study shows that in Chile, convenience stores located in gas station are the most preferred by consumers, especially for male consumers. Consumers shop at convenience stores when they need only few things so that stores are located close to home/or work place. Easy access to store, payment option and parking availability are the most salient attributes of convenience store in Chile. From literature survey, this study aims to contribute to the literature by adding evidence of consumer behavior and convenience store attributes. As pointed out from the survey, there is limited evidence of convenience store attributes in developing countries and no clear evidence from relatively low income countries. Meanwhile, the saliency of convenience store attributes tends to vary from country to country due to differences in culture, economic and business environment. Thus, this study looks at consumer behavior and convenience store attributes in lower-middle income country like Sri Lanka.

Convenience Stores in Sri Lanka: First Look

The retail market in Sri Lanka was traditionally featured by mum and pop shops and wholesale discounted shops prior to the entry of super markets in the early 80’s. The growth of the modern trade (organized retail stores and chains) was concentrated predominantly in the capital until its branches established in the sub-urban areas in the millennium. The opening of the first chain of super markets mark the initial milestone of what is acknowledged today as one of the fastest growing industries. By mid 2000 the industry was becoming highly competitive with over 5 main players; namely, Keells Super, Cargills, Arpico, Laugf and Sathosa. The main players varied in their brand positioning, differentiating themselves by offering value for money, best service and range.

The next milestone of the retail industry emerged in 2006, with the introduction of the convenience store concept by DPJ Holdings, who have involved with B2B business. There are three key reasons why DPJH wants to enter into new form of retail trade. First, there was a limited expansion opportunity of B2B business in a Small Island like Sri Lanka while the growth of the retail sectors, especially convenience stores in the other Asian region and worldwide are promising. Second, social trends in Sri Lanka is changing, including grater incomes, growing middle class people, increasing number of women in workforce, and technological progress. The rapid growth in the retail sector in the country was recognized.

Note that a convenience store (CVS) is referred here as a retail business with the primary emphasis on providing the public a convenient location to quickly purchase a wide array of consumable products and services.

And it was likely that it would replace some of the traditional corner stores called mom and pop shops. Another major reason of investment in convenience shops is the low capital outlay requirement, comparing to supermarkets and gaining the “First Mover” advantage. Hence, first convenience store started its operation in 2006 by establishing five outlets with a
substantial investment locating in different areas of western province. The main characteristics of the convenience format in Sri Lanka are: Five to six hundred square feet and one cashier; Long opening hours; Small quantities; Limited product range/ limited brands; Utility payment and mobile top up; High frequency of cash payment over card. CVS and super market differs in terms of range or the products offered, and the number of customers served at a given time. Although a super market is larger in size with more customers than CVS, the service level or the number of customer served at a given time is normally higher in CVS. In response to this format, some of the established super markets introduced the mini-super market (mini-mart), basing themselves in prominent locations such as affluent neighborhoods.

At present, convenience shops have gained competitive advantages from a spectrum of approaches such as customer services, effective information technology and systems (POS-Point of Sales, ERP-Enterprise Resource Planning, VMI-Vendor Managed Inventory and WMS-Warehouse Management System) supplier management, quick responsiveness to the market and customer changes, regional supply chain networks and third party logistics services. Currently, there are 8 players in the market, Go-Getter; Cargill’s Express; HelthGard; Laughfs SunUp; Cope City; Puhulyaya Super; Cristal; Super K. Although Mom and pop shops still dominate retail trade in the country (Table 1) as their market share accounts by 57% in 2011, followed by super market 32%, market share of convenience store has improved noticeably, reaching 11% in 2011. Today there are 240 outlets of the convenient stores in the country and is expected to increase more in the next few years.

[Table 1 about here]

Methodology

To understand consumer preferences and attributes, two types of survey are applied in this study, which are online customer survey and External survey. Online Survey is mainly for different levels of customers who have already purchased goods from convenient stores while External survey is conducting interviews for both existing and prospective customers.

Online survey

The online survey is based on customers who have already purchased goods from the Go Getter. “Convenience card” members and all customers visiting the outlets will be used as the target group of the survey. This has been done for 9 areas, including Chithra Lane; Baseline Road, Modara; Nanda investment, Nawala; Nivasipura; Raddolugana; Rajagiriya; World Trade Centre. The sample on average would be around 3750 customers per day for these areas. The customers who hold convenience card accounting for almost 20% of total customers who visit convenient store (monthly basis). The data are collected monthly from January 2008 until December 2010.

Data which will be collected at the time of checkout is age group, gender, basket value, product related details (category/range); time frame (buying at what time of the date), Service related customer cross selling. When the customer has a loyalty card holder, it is easy to link the purchase pattern with income and social status. Information relating to regularity and loyalty could also be revealed from customers who hold the loyalty card. This survey will help us to identify the buying patterns of various age groups in order to understand consumer’s preferences and improve the product mix in each store. In addition, by using the same data collection, it is expected to identify various variables that determine customers
varying purchasing decisions. These include time, age, gender, reaction to new arrivals and promotions, amount of money spend, as well as category of goods. Similarly, this will show how the customers obtain services like phone bill payments and reloads contributes toward impulse buying.

**External Survey (Potential consumer survey)**

The potential consumer survey is conducted to collect information relating to consumer expectation about convenient stores. Four key dimensions of Seiders et.al (2000) are used as a theoretical base for exploring consumer attribute saliency for convenience store in Sri Lanka. The sample size of our customers and potential customers was approximately 390 persons. A sample size of 390 persons is identified in the main City and suburban area. These constitute 5 of the 10 main cities where the convenience stores are functioning well. These cities include Chithra Lane, World trade Center, Nawala, Raddologama, Niwasipura. A structured questionnaire is used to reveal consumer expectations.

The purposive sampling will be used as a method to collect information from our potential customers. Purposive sampling will allow for information-rich cases to be selected, which will generate insights into key issues and into effectiveness of interventions, rather than generalization to a population. The respondents will be selected based on income, profession, family size, gender and place of dwelling.

Potential customers include customers living in apartments, customers receiving a salary above US$ 1000 per month, between US$1000 and US$ 150 and those earning less than US$ 150 which compels them not to stock up their basic needs, as well as young executives in the age range of 20 to 50 years mostly in rented apartments or boarding houses. The questions are set basing on Seiders et.al (2000), i.e. access convenience; search convenience; possession convenience; and transaction convenience. Location, parking availability, open hours are factors included as access convenience while layout and employee services are for search convenient. Offering range, product quality and price competition are used to represent possession convenience while fast services are included as a factor relating to transaction convenience.

All in all this survey will help us understand the consumer expectation/attribute saliency of convenient stores in CVS. Such information would help to guide CVS managers to expand the business in a direction of consumer needed.

**Key Findings from the Surveys**

**Results from On-line Data**

The on line data sheds light on some interesting factors about the Sri Lankan demographic landscape, economy and purchase power of the consumers. There were 4 main target groups that have been identified as regular and repeated customers. They are namely, youth (aged less than 18), teenagers (18 –25), the middle aged (25-50) and the elderly (50 onwards) as connoted by the acronyms T, Y, M and E. The first observation from the survey is presented in table 2. There are four areas that sales are more than 10% of total sales, which are Raddologama, Chithra Lane, Modara and Nawala. These areas are all located in relatively high-end residential neighborhoods and in close proximity to housing schemes and blocks. A convenience store in Sri Lanka is therefore, ideally suited for a medium to high-end neighborhood in close proximity to residencies. The other outlets perform below average since they are located close to school and offices. Thus, they miss out on the weekend sales.
[Table 2 about here]

Second, on average, middle aged people visited CVS the most, i.e. accounting for 40% of total sample size, followed by teens (25%) and youth (22%) (Table 3). This would reflect that middle aged customers are the most profitable segment as their buying power is more and they tend to have regular top up cycles. Lower proportion of teen could attribute to the fact that culturally in Sri Lanka, children leaving home takes place only after marriage and till such time parents and grown up children live under the same roof which is quite opposite to the Western countries. Under this backdrop, teens (and youth) often do not have an income for themselves and depend on their parents to provide cash for their education and other needs. Providing children with allowances is not commonly seen in Sri Lanka as parents buy and cater to the requirements of the children, except in the more affluent families where children receive daily pocket money and some even have access to credit and debit cards.

[Table 3 about here]

The teen segment is predominantly seen in the outlets of Rajagiriya, Nanda and Modara, Investment outlets. The outlet in Rajagiriya is situated close to a residential neighborhood within walking distance from some of the main international schools in the area. Similarly, Nanda investments outlet is situated in a residential neighborhood and some of the most popular private schools. Note that there are almost an equal number of middle aged visitors to this outlet and near universally they are the parents of the teens. These school kids don’t use public school transportation systems and their parents come to pick them up. A lot of toping up takes place by the parents who come to pick up their children. In contrast to the above two outlets, Modara is one of the borders of Colombo and has a combination of residencies, trading outlets and wet/open markets. Modara therefore, is a highly populated area and a lot of youngsters reside in the areas or have come for work being located in this area.

The World Trade Center (WTC) is located under the financial hub of the country amidst established offices. Interestingly, the profile of those who visit this outlet is almost an equal in numbers with the elderly being slightly higher. The reason for this is the fact that the retirement age in Sri Lanka is 65 years and those who work in blue chip office at the world trade center is usually the more experienced persons and hence the skew towards the elderly. The World Trade Center also has a lot of restaurants, cafes and salons and the same can be attributed towards the higher number of teens and youth patronage.

Third, the survey also shows that on average the tendency of the Sri Lankan males to visit CVS more than females (Table 3). Males accounted for around 65% of total customers while females were around 35%. The gender differences are found the most in teens, followed by youth and middle aged. This result could arise from the fact that females tend to carry out planned purchases while males tend to have more impulse buying than females. Such impulse buying of males tends to be found more in teens/youth. The findings reveal that the average female shopper tends to buy bulk, family pack sizes and tend to carry out purchasing at regular intervals. Meanwhile, Sri Lanka males tend to hold better job positions than females and the same is seen with a higher tendency of males patronizing the CVS. Super markets tend to attract more female shoppers than CVS. The equal gender split of middle aged in Rajagiriya could result from the fact that in both middle and higher-end classes who can send kinds to private and international school, both males and females tend to have the equal responsibility to look after their children, including picking up them at school. Thus, male
and female customers tend to be equally split in this area (i.e. around 8-9% of total consumers). Raddolugana is another place where this is no gender gap of middle aged visiting CVS. As most of females in this area are educated person and hold regular position in company or government offices, behavior of planned purchases is found less than those in other area.

Fourth, the survey shows that around 70% of total customers who visit CVS have the basket value less than Rs. 200 while less than 5% of total customers have the basket value more than Rs. 500 (Table 4). Snacks &Confectionary, beverages and frozen food are among the highest demand from customers, accounting for 23% of total sales, 20% and 13%, respectively (Table 5). Daily products, personal care and condiments &spices are also in high demand. There are still limited number of consumers who want to purchase recharge cards and other related products.

[Table 4 about here]

[Table 5 about here]

**Results from External Survey**

The external survey shows that access convenience, in terms of location and open hours, is the salient attribute for Sri Lankan consumers, both males and females. Parking availability is less important factor for consumer to visit CVS. This confirms the on-line data analysis above that consumers tend to visit CVS at close to their residential neighborhoods, offices or their schools where the parking space is not the problem. This finding is in contrast to Berry et.al (2002), Pan and Zinkhan (2006) who found that parking availability is one of the crucial factors in CVS of developed countries.

[Table 6 about here]

Transaction convenience is another salient attribute as shown from the high percentage of Fast services factor (Table 6). This factor is particularly crucial for people who earn more than $1,000 facing more time pressures than other groups. This confirms the concept of CVS as to serve more for time poor customers who value quick and easy shopping excursions and relatively high income people. Our survey shows that those who earn greater than US$1,000 have the highest scores of satisfaction levels from visiting CVS (Table 7).

[Table 7 about here]

Possession convenience is also crucial and this attribute tends to apply more for female. It seems that female consumers tend to look for a wider range of products as they tend to have more time for shopping than male and are less impulse buying. Thus, offering a wider range of products and product quality could attract more (female) customers to visit CVS in Sri Lanka. The survey also shows that from the survey more than half the population (57.63%) stated that they want to buy other products, including Dairy, personal care and home care, instead of just basic products like drink/colas (35.59%), milk products (32.2%), bread and bakery (28%). Competitive price is less crucial, especially for male, comparing to product range and quality. The convenience of this retail trade format can compensate the higher prices charged. Female tends to respond more to this factor than male as they tend to carry out planned purchases and more time for shopping.
Interestingly, search convenience is less crucial for customers in Sri Lanka. Store layout and helps from employees in searching for products are attached with the relatively lower percentage, comparing to other attributes. In fact, from literature, this factor is found to be one of the important factors in developed countries. The less importance of this factor in the relatively low income countries could be because of less time pressures of consumers than those in developed countries. Thus, time to search for the needed products by themselves is longer so that store layout and needs to use CVS staffs have less impact to Sri Lankan consumers’ decision. This is particularly true for female shoppers (Table 6).

**Conclusion and Inferences**

Although convenience store (CVS) has become one of the popular formats of retail trade in developing countries, it has received relatively less attention from empirical literature. Most of the empirical studies focus on developed countries. This study aims to contribute to the literature by examining consumer preferences and expectations of convenience store attributes using Sri Lanka as a case study. Both Online customer survey and External (potential customer) survey are used in this study.

Our results show that a convenience store in Sri Lanka is still ideally suited for a medium to high income people. Middle aged people account for the largest segment in the market as their buying power is more and they tend to have regular top up cycles. However, in some places such as Rajagiriya, teens and youth dominate as CVS are located close to private or international schools. The survey also shows that on average the tendency of the Sri Lankan males to visit CVS is more than females. This is found for all aged group. The gender differences could arise from the fact that females tend to carry out planned purchases while males tend to have more impulse buying than females. Snacks & Confectionary, beverages and frozen food are among the highest demand from customers. There is still limited number of consumers who want to purchase recharge cards and other related products and the basket value of customers is relatively low.

Access convenience, in terms of location and open hours, and transaction convenience are the salient attribute for Sri Lankan consumers, both males and females. Possession convenience, i.e. wide product rage and product quality, is also crucial and apply more for female. More time for shopping than male and less impulse buying could be reasons behind the finding. Parking availability and search convenience, in terms of store layout and helps from CVS staffs, are less crucial for customers in Sri Lanka. Our results are important for the expansionary path of the convenience store in relatively low income countries like Sri Lanka. These could have implications for both local and prospective international managers who want to expand CVS in relatively low income countries. Our implications are as follows: First, location is a crucial attribute for CVS. Location where there are a higher number of middle aged people, residential neighborhoods, and international and private schools is preferable to other places. Places with high number of males are likely to generate more sales and profits to than those with female dominance. Note that although locating close to private and international schools is our preferred choice, they face two challenges. First, these outlets tend to loss the weekend sales. Second, once the teen is out of school, he/she is unlikely to visit the outlet again. The latter challenge could be less concern as the graduated students will be replaced by the new ones. To keep the momentum going and to get the children to continue patronizing the convenient store outlets, it is important to give them a solid reason to visit the outlets since they are youth (i.e. a new customer group). In this light, CVS must come up with strategies to reward loyalty to customers and to maintain consistent service
quality levels and target group specific product lines. This would help not only to ensure consistent flows of customer, but also to increase the weekday sales for compensating loss of weekend revenues.

Second, in addition to location, managers need to pay attention on services as transaction convenience is another crucial attributes for consumer to visit CVS. Well trained cashiers and payment options should be taken into account for CVS management. Proper store layout could, to some extent, indirectly help to facilitate transaction convenience to CVS customers.

Third, one concerning point from the above information is that the relatively low basket value of CVS customers in this country. The steady flows of customers are needed to compensate the relatively low basket value. To ensure the steady flows of the customers, culture barrier is needed to be redress. This could be because there is lack of understanding about the concept of a convenience store as there is a segment of the society who was afraid of entering closed air conditioned stores as they were under the impression that these are very expensive. As well, people just expect the same range of services as a super market, given their lack of familiarity with this concept. There are limited number of consumers who want to purchase recharge cards and other related products. When considering such backdrop, innovative methods of communicating to the target markets are needed to redress such culture challenges.

Fourth, in addition to a steady flow of customers that CVS need, increasing a basket value of customers should also be taken into account for the sustainability of CVS expansionary path. Selling very high value items seem to be infeasible here. Not only because it will divert the stores from the concept of CVS, but also the income level of people here are still relatively low. Trying to increase the basket value is the better option. In order to increase the basket value, CVS need to look at a operational model which promote cross selling and up selling with the fast moving product categories such as beverages, confectionary, bakery items etc. CVS managers also need to increase their range of impulse category buying and look at ways and means of promoting low value items which will be bought in large quantities. This cannot be simply done through an information system per se. The management of CVS needs to carry out data mining and promote a culture at the outlet level which looks at taking the responsibility of growing the outlet demand. In order to do so, the outlet managers need to be empowered to analyze the data on their own, carry out promotions which are outlet specific while the top management needs to monitor this activity. Note that this system cannot be implemented overnight, but needs some certain periods to ensure the success.

References


**TABLES**

**Table 1: Retail Trade in Sri Lanka, 2011**

<table>
<thead>
<tr>
<th>Retail Trade</th>
<th>Key Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mum and pop shop</td>
<td>Players: SMEs (115,000 outlets)</td>
</tr>
<tr>
<td></td>
<td>Products: popular essential brands with moderate pricing and localize according to the situated environments.</td>
</tr>
<tr>
<td></td>
<td>Location: Scatter, mostly in suburban and semi-urban areas</td>
</tr>
<tr>
<td></td>
<td>Service time: Early morning till early evening</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>Key Characteristics</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Super Market</td>
<td>Players: 5 players, i.e. Keells Super, Cargills, Arpico, Laugfs and Sathosa (600 outlets)</td>
</tr>
<tr>
<td></td>
<td>Products: Complete product range including imported items.</td>
</tr>
<tr>
<td></td>
<td>Location: Urban cities and populated areas with more concentration to Western province.</td>
</tr>
<tr>
<td></td>
<td>Service time: 8 AM to 10 PM</td>
</tr>
<tr>
<td>Convenient stores (including mini-</td>
<td>Players: 8 players, i.e. Go-Getter; Cargill’s Express; HelthGard; Laugfs SunUp; Cope City; Puhulyaya Super; Cristal; Super K. (240 outlets)</td>
</tr>
<tr>
<td>marts)</td>
<td>Products: Limited product range with selected brands.</td>
</tr>
<tr>
<td></td>
<td>Location: Colombo district and western province; through the island in sub-urban areas</td>
</tr>
<tr>
<td></td>
<td>Service time: 7 AM to 11 PM / some places from 9 AM to 9 PM</td>
</tr>
</tbody>
</table>

Table 2: Sales Distribution, provincial basis (% of total sales)

<table>
<thead>
<tr>
<th>Provinces</th>
<th>% of total sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raddolugama</td>
<td>15.44</td>
</tr>
<tr>
<td>Chithra Lane</td>
<td>14.45</td>
</tr>
<tr>
<td>Modara</td>
<td>13.29</td>
</tr>
<tr>
<td>Nawala</td>
<td>12.02</td>
</tr>
<tr>
<td>Nivasipura</td>
<td>10.38</td>
</tr>
<tr>
<td>Rajagiriya</td>
<td>9.92</td>
</tr>
<tr>
<td>Nanda Investment</td>
<td>9.74</td>
</tr>
<tr>
<td>Baseline Rd</td>
<td>7.94</td>
</tr>
<tr>
<td>World Trade Centre</td>
<td>6.83</td>
</tr>
</tbody>
</table>

Source: Authors’ calculation from online survey data.
<table>
<thead>
<tr>
<th>Table 3: Aged Distribution and Gender from Online Survey (% of total customers)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Chithra Lane</td>
</tr>
<tr>
<td>E</td>
</tr>
<tr>
<td>M</td>
</tr>
<tr>
<td>T</td>
</tr>
<tr>
<td>Y</td>
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<tr>
<td></td>
</tr>
<tr>
<td>Baseline Road</td>
</tr>
<tr>
<td>E</td>
</tr>
<tr>
<td>M</td>
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<tr>
<td>T</td>
</tr>
<tr>
<td>Y</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Modara</td>
</tr>
<tr>
<td>E</td>
</tr>
<tr>
<td>M</td>
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<tr>
<td>T</td>
</tr>
<tr>
<td>Y</td>
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<tr>
<td></td>
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<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td>Location</td>
</tr>
<tr>
<td>---------------</td>
</tr>
<tr>
<td>Raddolugana</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>World Trade Centre</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Rajagiriya</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ calculation from online survey data.
Table 4: Basket Value of Customer (% of total customers)

<table>
<thead>
<tr>
<th>Basket value</th>
<th>% of customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-49</td>
<td>27.61</td>
</tr>
<tr>
<td>50-99</td>
<td>22.56</td>
</tr>
<tr>
<td>100-199</td>
<td>21.73</td>
</tr>
<tr>
<td>200-299</td>
<td>10.13</td>
</tr>
<tr>
<td>300-399</td>
<td>7.73</td>
</tr>
<tr>
<td>400-499</td>
<td>3.32</td>
</tr>
<tr>
<td>500 – 599</td>
<td>1.72</td>
</tr>
<tr>
<td>600-699</td>
<td>1.49</td>
</tr>
<tr>
<td>700-799</td>
<td>0.90</td>
</tr>
<tr>
<td>800-999</td>
<td>1.26</td>
</tr>
<tr>
<td>1000+</td>
<td>1.56</td>
</tr>
</tbody>
</table>

Source: Authors’ calculation from online survey data.
Table 5: Product demand for Consumer (% of total sales)

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>E</th>
<th>M</th>
<th>T</th>
<th>Y</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grand Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Snacks &amp; Confectionary</td>
<td>25.18</td>
<td>21.32</td>
<td>25.57</td>
<td>22.05</td>
<td>23.04</td>
</tr>
<tr>
<td>Beverages</td>
<td>19.79</td>
<td>20.86</td>
<td>19.64</td>
<td>20.93</td>
<td>20.33</td>
</tr>
<tr>
<td>Condiments &amp; Spices</td>
<td>6.33</td>
<td>8.49</td>
<td>5.93</td>
<td>7.46</td>
<td>7.54</td>
</tr>
<tr>
<td>Dairy</td>
<td>7.44</td>
<td>6.99</td>
<td>5.89</td>
<td>6.49</td>
<td>6.76</td>
</tr>
<tr>
<td>Personal Care</td>
<td>5.36</td>
<td>5.63</td>
<td>6.62</td>
<td>6.93</td>
<td>6.07</td>
</tr>
<tr>
<td>Home Care</td>
<td>3.98</td>
<td>4.65</td>
<td>4.37</td>
<td>5.18</td>
<td>4.64</td>
</tr>
<tr>
<td>Bakery</td>
<td>3.49</td>
<td>4.38</td>
<td>3.16</td>
<td>3.84</td>
<td>3.85</td>
</tr>
<tr>
<td>Tobacco Products</td>
<td>3.56</td>
<td>3.49</td>
<td>2.18</td>
<td>2.87</td>
<td>3.05</td>
</tr>
<tr>
<td>Baby Needs</td>
<td>2.09</td>
<td>2.24</td>
<td>2.75</td>
<td>2.47</td>
<td>2.39</td>
</tr>
<tr>
<td>Pasta &amp; Soups</td>
<td>1.86</td>
<td>2.28</td>
<td>1.84</td>
<td>2.06</td>
<td>2.05</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>1.96</td>
<td>1.42</td>
<td>1.47</td>
<td>1.84</td>
<td>1.58</td>
</tr>
<tr>
<td>Vegetables</td>
<td>1.13</td>
<td>0.82</td>
<td>0.70</td>
<td>0.93</td>
<td>0.89</td>
</tr>
<tr>
<td>General Merchandise</td>
<td>0.69</td>
<td>0.90</td>
<td>0.77</td>
<td>0.85</td>
<td>0.86</td>
</tr>
<tr>
<td>Canned Foods</td>
<td>0.89</td>
<td>0.63</td>
<td>0.74</td>
<td>0.65</td>
<td>0.71</td>
</tr>
<tr>
<td>Breakfast Cereals</td>
<td>0.47</td>
<td>0.71</td>
<td>0.46</td>
<td>0.55</td>
<td>0.58</td>
</tr>
<tr>
<td>Desserts &amp; Ingredients</td>
<td>0.53</td>
<td>0.52</td>
<td>0.36</td>
<td>0.43</td>
<td>0.48</td>
</tr>
<tr>
<td>Jams &amp; Spreads</td>
<td>0.23</td>
<td>0.42</td>
<td>0.67</td>
<td>0.14</td>
<td>0.43</td>
</tr>
<tr>
<td>Fruits</td>
<td>0.12</td>
<td>0.07</td>
<td>0.18</td>
<td>0.05</td>
<td>0.11</td>
</tr>
<tr>
<td>Stationary</td>
<td>0.03</td>
<td>0.03</td>
<td>0.01</td>
<td>0.04</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Source: Authors’ calculation from online survey data.

Table 6: Expected Factors from Customers for Convenience Store Visits (% of total factors)

<table>
<thead>
<tr>
<th></th>
<th>Below $ 150</th>
<th>$150 - $1,000</th>
<th>&gt;$ 1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Males</td>
<td>Females</td>
<td>Males</td>
</tr>
<tr>
<td>Location</td>
<td>20.4</td>
<td>28.0</td>
<td>22.5</td>
</tr>
<tr>
<td>Fast service</td>
<td>15.3</td>
<td>10.5</td>
<td>14.2</td>
</tr>
<tr>
<td>Offering a range</td>
<td>10.5</td>
<td>21.8</td>
<td>13.0</td>
</tr>
<tr>
<td>Competitive pricing</td>
<td>6.1</td>
<td>10.0</td>
<td>10.7</td>
</tr>
<tr>
<td>Extended Opening hours</td>
<td>14.6</td>
<td>8.0</td>
<td>16.9</td>
</tr>
<tr>
<td>Product quality</td>
<td>6.1</td>
<td>10.1</td>
<td>8.2</td>
</tr>
<tr>
<td>Layout and Employee services</td>
<td>4.0</td>
<td>6.7</td>
<td>7.0</td>
</tr>
</tbody>
</table>
### Table 7: Mean satisfaction levels (out of score 5)

<table>
<thead>
<tr>
<th>Income category</th>
<th>Mean levels of satisfaction (Out of 5 score)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; $ 150</td>
<td>3.26</td>
</tr>
<tr>
<td>$ 150 - $ 1,000</td>
<td>3.92</td>
</tr>
<tr>
<td>&lt; $ 1000</td>
<td>4.28</td>
</tr>
</tbody>
</table>

Source: Authors’ calculation from the survey information

**Biographical Notes:** Prasantha Jayamanna works as the Chairman/CEO of DPJ Holdings, a diversified Group of Companies, with the overall responsibility of management and operational functions of the group which consist of eight strategic business units. He is currently reading for the doctoral degree in Business Administration at the Asian Institute of Technology and completed a Master degree in Business Administration (MBA) at the University of Western Sydney, Australia. Prasantha has won many national awards for his business excellences from the year 2008. He is also an Adviser to the Ports and Highway Ministry of Sri Lanka. In addition, He delivers guest lectures on Leadership and Entrepreneurship at various institutions including universities.
INTEGRATION OF COMPETENCY MODEL TO HR SYSTEMTS: IT'S IMPACT ON ORGANISATION PERFORMANCE AND HR FUNCTION

Abstract

Competency approach in management is recognised as a powerful tool in building and developing human capitals as a competitive advantage. This study investigated the relationships of integration of competency model in HR systems with HR function effectiveness and organisation performance. It also further examined such relationships as evaluated by HR managers vis-à-vis the line managers. Competency model integration to HR systems found to be having significant impact on organisational performance as well enhancing HR function effectiveness. In turn, HR function effectiveness also seemed to have strong influence on organisational internal performances measures. However, unlike the findings of several earlier researchers, HR function effectiveness did not show positive relation with organisation’s market performance. The study shows that line managers value the contribution of integration of competency model in HR systems in positively impacting organisation performance both in terms of internal as well as market measures, more than the HR managers do.

Key words: Competency Model, HR function effectiveness, Organisational Performance, Market Performance, HR managers, Line Managers

Introduction

“There is only compelling reason for adopting a skill or competency based approach: to create a compelling advantage, because it leads to an organisation performing better” (Lawler, 1993, p17). Competency management can provide crucial leverage in the current competitive scenario where organisational performance increasingly depends on their assets of knowledge and skills (Yeung, 1996). Competency programs involve link between the organisational strategy and organisational and individual performance and it is increasingly being recognised as a powerful tool for sustained competitive advantage for an organisation (Rothwell and Lindholm, 1999). Competency management can be described as an integrated set of human resource activities aimed at increase individual effectiveness, and, subsequently, to increase organizational effectiveness (Athey and Orth, 1999). The concept of competency lies at the heart of HRM, providing a basis for horizontal integration of key HR activities, such as selection, performance assessment, training, career development, and reward management, as well as vertical integration with organizational strategy, values, business processes and performance outcomes among others. (Soderquist, Papalexandris and Prastacos, 2010). According to Rodriguez, Patel, Bright, Gregory and Gowing, 2002) competencies provide the foundation through which human resource professionals can contribute to the success of their organization. While competency modelling has become a popular management tool in creating value added HR function as a source of competitive
advantage (Becker and Huselid, 1999, Alldrege and Nilan, 2000), there is a paucity of empirical research on linkage of competency approach with HR function effectiveness as well as organisation performance (Hefferman and Flood, 2000). This study aims in this direction to investigating such linkages.

**Literature survey**

Competency movement was fast initiated by McClelland (1973), when in his seminal paper “Testing for competency rather than for intelligence”, he strongly voiced against the then popular belief promulgated by most of the psychologists that intelligence test predicts the ability for job success. Alternative to traditional intelligence test he advocated for competency test to predict job success or life outcomes. Boyatzis (1982) defined competency as: “an underlying characteristic of an employee (i.e., a motive, trait, skill, aspect of one’s self-image, social role, or a body of knowledge) which results in superior performance” (p. 21). According to him superior performance in a job is the attainment of defined and desired outcomes as required by the job and by undertaking’s specific actions in consistent with policies, procedures and conditions of organisation environment. Spencer and Spencer (1993) defined competency as “Competency is an underlying Characteristics of an individual that is causally related to criteria referenced effective and/or superior performance in a job or situation” (p-9). They explained five types of characteristics namely ‘Motive’, ‘Traits’, ‘Self-Concept’, ‘Knowledge’, and ‘Skill. Motives and traits reflect in intents, which cause actions. They asserted that motive, trait and self-concepts predict skill, behaviour and action and in turn predict job performance. Arguing in favour of competency based approach in management rather than job based approach Lawler (1993) asserted that the pressure of globalisation and fierce competitive environment, organisations were faced with new performance demand. Job based system has become dysfunctional. The alternative to job based organisation would call for organisation system that focuses on individual capacities and that to be managed in way causing building of organisation capability as a competitive advantage. Athey and Orth (1999) contended that as the concept of competency gained more maturity since the time of McClelland (1973), the thinking had shifted from the specific view of competencies as knowledge, skills abilities, or other characteristics (KSAOs) that differentiate high from average performance. According to them the concept of competency has been taken to strategic level by Prahlad and Hamel (1990), who invented the term “Core Competency. Prahlad and Hamel (1990) explained that “Core Competencies are collective learning in the organisation, especially how to coordinate diverse production skills and integrate multiple streams of technologies…. It is also about the organisation of work and the delivery of value” (p-82). They further argued that strength of core competency, unlike physical assets, would get enhanced as they are applied and shared more, which however, need to be nurtured and protected. Rothwell and Lindholm (1999) explain that core competency is the key in making an organisation competitive; distinguishing it from other organisations. It reflects the fruits of collective learning of an organisation in coordinating diverse skills and integrating them with multiple technology streams in a unique way that build its competitive capability. They argue that competency modeling is a dynamic process as it is subject to external forces, changing customer choices and environment vagaries. Athey and Orth (1999) pointed out five emerging trends in embracing the competency methods. The trends, according to them, are being more participative competency approach, more flexible, short cycled and automated, increasing emphasis on future competencies, increasing focus on team and process competencies, and transition to an organizational learning perspectives. Development of 3M leadership competency model does exemplify the emerging trends as explained by Athey and Orth (1999). As described by Alldredge and
Nilan (2000), critical success factors that were considered for developing the competency model in 3 M were wide involvement of senior managers, key leaders, focusing on future competencies, designing it to be more flexible, emphasising on team and process, and the whole approach being based on learning perspectives. Sandbarg (2000) argued that the traditional or rationalistic approach in competency modeling would be primarily context free, too generic, and might not be able to appropriately represent the complexity of competency in work performance. As an alternative to rationalistic approaches he suggested “interpretive approach”, which is known as phenomenography. The point of departure from rationalistic approach is that instead of focusing on worker and work as being separate entities, focus is on worker’s live experience of the work. Vakola, Soderquist and Prastacos, (2004) deviating from traditional approach, proposed competency modeling based on explicit alignment of competencies with organisation goals and implementation of the strategy driven changes for achieving competitive advantage. It is to be forward looking and proactive rather than only focus on current job role and static job description. Capaldo, Iandoli and Zollo (2006) also viewed that traditional approach is too generic. As an alternative to universalistic approach, they proposed situationalistic approach, which assumes competencies are situated and idiosyncratic constructs and its meaning is deeply influenced by organisational culture and by unique way people made sense of their jobs. With the backdrop of divergent approaches towards competency management by various researchers, Boyatzis (2008) provided in-depth perspectives of how competencies drive performance and how they were developed. He suggested a cluster of three threshold competencies namely expertise & experience, knowledge, and assortment of basic cognitive abilities, and a cluster of three competencies for differentiated and outstanding performance, which are cognitive competencies, emotional intelligence competencies and social intelligence competencies. Vakola et al (2004) emphasised that HR function would play the central role in implementing the change programs another approach in competency modelling.

Drawing the theoretical perspectives of resource based view (RBV) to competency, Lado and Wilson (1994) explained how the human resource system could significantly contribute in facilitating, developing and utilising organisation competencies as sustained competitive advantage. The resource based view posits that a resource can be characterised as a sources of sustained competitive advantage must poses the four attributes together like it must be valuable, it must be rare, it must be imperfectly imitable, and there cannot be strategically equivalent substitute for the resource (Burney,1991). From the RVB perspective Lado and Wilson (1994) suggested that to lead the development of organisation competencies as sustained competitive advantage, the configuration of competency enhancing HR system must be unique, causally ambiguous and synergetic, the HR system must be reciprocally integrated with the company’s strategic suprasystems, and HR system must be self-renewing. Becker and Huselid (1999) argued that relying on competency model itself could be a source of competitive advantage. The adoption and application of competency model to entire HR system in a unique way could create a causal ambiguity, thus making it difficult for others to imitate. They posited that “strategic value of competency model is a function of their integration in larger HR system” (p-292). According to Rodriguez, Patel, Bright, Gregory and Gowing (2002) in a fully integrated competency based HR system, the task-to-performance linkage form the base of array of HR products like training objectives and curriculum, career development, performance standards, recruitment and selection. Competencies support the new role of HR as strategic partner to business and change agent since they can be linked to strategic mission and values of the organisation. Heffernan and Flood (2000) held that competencies are emerging theme of HR Management, which could help building organisation competitive advantage through aligning HR strategy with business...
strategy. Boyatzis (2008) argued that one of the benefits of competency was that the entire domain of human talent could be learned and developed in adulthood. Thus, once competencies are identified through several appropriate HR interventions it should be possible to transmit such competencies to entire workforce (Heffernan and Flood 2000). The foregoing discussion leads to the understanding that competency approach in management has the potential to enhance the organisation performance (Boyatzis 1992; Boyatzis 2008; Lawler 1999; 2008, Athey and Orth 1999). However, it is difficult to establish direct causal relation between organisation competencies and outcome (Lado and Wilson, 1994). Competency framework is operationalized through HR systems (Athey and Orth, 1999; Becker and Huselid, 1999; Heffernan and Flood, 2000). Thus, I predict that integration of competency model to HR systems will have causal linkage with organisation performance.

**Hypothesis 1:** Higher the extent of integration of competency models to HR systems, higher the organisation performance.

Employees’ competencies and integration of HR policies and practices with business strategy play a central role for sustained competitive advantage (Barney, 1991; Lado and Wilson, 1994). Competency based HRM system is a critical requirement for a value added HR system; the strategic value of competency model is a function of its integration to HR system (Becker and Huselid, 1999). However, it would require complete convergence of multiple HR processes and organisation forces towards implementation of organisation strategy (Lawler, 1993). Lado and Wilson (1994) argued that to the extent competency enhancing HR systems including HR activities, processes and practices depends on its unique idiosyncratic capabilities of differentiations and innovations, and insofar such configuration produces positive synergies for the organisation, it may hold the potential source of sustained competitive advantage. It may, thus, be expected that effectiveness of HR function will be directly related to what extent the competency models have been integrated to HR system

**Hypothesis 2:** Higher the extent of integration of competency framework to HR systems, higher the effectiveness of HR function.

To build a competency based HRM system as a source of competitive advantage, the critical imperatives would be the competencies HR professionals (Losey, 1999; Ulrich and Brockbank, 2005). Yeung, Woolcock and Sullivan (1996) contended that aligning HR competencies with the changing HR vision, strategy, structure, system, and process would call for revamping HR roles and building new set of competencies and transformation of HR function. Ulrich, Brokeback, Johnson and Yeung et al (2009) argued that the changing business context requires the HR professionals to move out from the legacy of monitoring terms and conditions of employment to help the business to compete; HR professionals required to play new roles, and to play the new roles effectively they needed to have new competencies. HR competencies are demonstrated in its value addition to business (Ulrich, Brockbank, and Yeung and Lake, 1995). According to this HR Competency of model Ulrich et al, (2009) HR professionals need to play the unique role in the intersection of people and business. The empirical link between HR strategies and systems and organisation performance both in terms of market based and accounting based measures have been found to be very strong (Becker and Huselid, 1999; Ulrich et al, 1995) investigated how the HR competencies were related to business performance. According to their study when overall HR competency increases, subsequent increase in business competitiveness also occurs. Lado and Wilson (1994) argued that the organisations with HR systems reciprocally integration with strategic supersytem likely to achieve superior long rum performance compared to
organisations, which did not have such HR system. Thus it is evident that effectiveness of HR function has a direct impact on organisation performance.

**Hypothesis 3:** Higher the effectiveness of HR functions, higher the organisation performance.

To measure the HR system and operation effectiveness, Ulrich (1998) suggested HR audit in the form of balance card approach. According to him one aspect it would be a kind of customer survey, where internal customers i.e., employees as user and customer of HR services and practices, evaluate the HR effectiveness. However, he pointed out the weakness of such approach as employees at lower level may not be fully aware of what best for the organisation. Wright et al (1996) suggested that such problem could be alleviated by obtaining evaluation from senior line managers as they are not only user of HR services and practices, but also have interest of having maximum positive impact of such services and practices to their respective members. Competency based HR systems get operationalized with involvement of line managers (Hefferman and Flood, 2000, Alldredge and Nilan 2000). Moreover, they are aware of what best for the organisations as well as they are also accountable to balance between what employees may want and what is needed for organisation financial performance (Wright et al, 2001). Managers, supervisors and line managers are important constituents of HRM functions and would be appropriate constituents to rate HR performance along with HR executives themselves for self-evaluations (Tsui 1987). Perceptions could, however be affected by ‘functional’ and ‘self- interest’ bias, mainly because the HR executives may exaggerate effectiveness of competency model or their role in supporting business strategy (Wright et al, 2001). It leads to belief that HR executives rate the extent of competency model integration to HR systems and HR function effectiveness at much higher order than the line manager.

**Hypothesis 4a:** The impact of extent of Competency model integration to HR systems on organisation performance evaluated by HR managers will be higher than the same of Line managers

**Hypothesis 4b:** The impact of extent of Competency model integration to HR systems on HR function effectiveness evaluated by HR managers will be higher than the same of Line managers

**Hypothesis 4c:** The impact of HR function effectiveness on organisation performance evaluated by HR managers will be higher than the same of Line managers

**Methodology**

**Subject**

The survey has been conducted online. HR and Line managerial staff mostly in middle and senior management levels from the organisations of diverse industries namely Automobile, FMCG/ food& beverages, Pharmaceutical, Technology conglomerate and IT/ITES in India, who have already implemented competency model in their HR management system, have been approached to participate in the survey. The purpose of diverse industry approach is to have representative samples across industry as the study aimed at investigating competency management linkage to HR systems as well as organisation performance from an overall theoretical perspective. Online survey questionnaire were sent to about 130 managerial staff. To avoid single source bias, questionnaire were sent online almost in equal number to HR managers and Line managers. Line managers are the most appropriate constituents for evaluation effectiveness of HR initiatives (Tsui, 1987). However, the traditional line-HR
conflict may play a role in Line managers being too critical towards HR organisation (Wright et al 2001). Hence it is more appropriate to balance the biases, if any, by obtaining responses from both the sources. 71 responses were received, which comprised of 49% and 51% HR and non-HR (Line Managers) professionals respectively.

**Measures**

**HR Function Effectiveness**
28 items scale (13 items on HR service, 5 items on HR role and 10 items on HR contributions) was taken from the HR function developed by Wright, McMahan, Snell and Gerhart (2001). They authors developed the questionnaire capturing the essence of HR roles as “Management of Strategic Human Resources”, “Management of firm’s infrastructure”, “Management of employee contributions” and “Management of transformation or change” as suggested by Ulrich (1998). This has been considered to be more appropriate for the study as HR function effectiveness has been conceptualised in line with proposed model of Ulrich (1998, 1995, and 2005).

Likert’s scale of 5; 1= Not Effective and 5= Effective has been used.

**Integration of Competency model to HR Systems**

Literatures suggest that the strategic contributions of competency model to HR system are, primarily in the areas of Recruitment & Selection, Training & Development, Performance Management system, Succession planning & Career Development, and Workforce planning & Manpower Deployment (Spencer & Spencer, 1993; Athey and Orth, 1999; Rothwell and Lindholm, 1999; Rodriguez *et al*, 2002; Sederquist *et al*, 2010)

Accordingly the items used have been to measure the extent integration of competency model to HR Systems i) Recruitment and Selection process, ii) Training & Development practices, iii) Succession Planning/Career management, iv) Performance Management System, v) Manpower planning/ Manpower deployment/Job rotation

Likert scale of 1= not all integrated and 5= fully integrated has been used

**Organisation Performance**

Organisation Performance has been measured by using the scale developed by Dalaney and Huselid (2007), which consists of measures of both organisational internal parameters and market parameters. According to them measures are necessary to accurately evaluate HR function performance. As described by the authors the measures were employed as benchmarking against industry competitors and captured in form perceptual data. Both organisational and market performance have been measured based on perceptions of respondents on reasons that many of respondents belong to privately held Indian subsidiaries of MNC, who are not publicly listed companies and their financial results are not published publicly, and anonymity has been maintained of respondents to encourage the respondents to give authentic and accurate date, and hence is not possible to identify the corresponding company of each respondent that he or she belong to. There are evidences of high correlations between perceptual and objectives measures at the firm level (Dollinger and Golden, 1992, Powell, 1992). The organisational performance has been measured with the following items:

How the organisation performed during last 3 years compare to other organisations doing same kind of work in terms of i) Quality of products, service? ii) Development of new products and or services? iii) Ability to attract essential employees? iv) Ability to retain
essential employees? v) Satisfaction of customer or clients? vi) Relationship between management and other employees? vii) Relationship among employees in general?
The organisation’s market performance has been measured by company’s performance compare to industry competitors in terms of Growth of Sales, Profitability, and Market Share. 5 point Likert scale with 1= “Much worse” and 5= “Much better” has been used.

Analysis
In establishing validity of relationship between the constructs, to begin with, internal consistency, reliability and unidimensionability of each of the measures under each construct have been studied through corrected item-total-correlation (CITC), and Cronbach’s alpha coefficient analysis. CITC of none of item has been found to below 0.40

Hypotheses tests have been done by structural equation model using lisrel 8.80. The hypotheses on differences between HR mangers’ and Line manager’s perception on the variables namely “Competency model integration to HR systems”, “HR function effectiveness”, “Organisational Performance, and “Market Performance” have been analysed by MNOVA and split-data regression analyses.

Findings

CFA of the Constructs
CFA was done in lisrel 8.80, first with the priori models. The fit indices of priori models and rectified factor models of the latent variables are given in table1. The fit indices of the priori model of 5 items latent variable of “Competency Model Integration to HR systems” and priori model of 7 items latent variable of “Organisational Performance” were not found satisfactory. Standarised residual method has been used as recommended by Anderson and Gerbing (1988) to rectify the factor models of the above latent variables. CFA analysis data of factor model modifications is given in table 1

(Table 1 goes about here)

Descriptive Statistics, Correlations and scale Reliability
Table 2 shows the mean, standard deviation, correlations of variable and also the reliability of the scales of each variable. Cronbach’s alpha value of all the variables are above 0.70

(Table 2 goes about here)

Hypotheses Tests
Structural Equation Model (SEM)
Hypotheses 1, 2 & 3 have analysed by structural Equation Model (SEM) by using lisrel 8.80

The findings have been given in Table 3

To assess the good model, the criteria use as $\chi^2 /df < 2.00$, RSMEA =< 0.80. Sample size being limited, GFI (> 0.9) and CFI (> 0.9) has been considered to estimate good model fit (Bentler, 1990).

(Table 3 goes about here)

The results reveal good fit of both the models that is “Competency Model (CM) integration to HR systems” as well as “HR functions effectiveness” having impact on “Organisational Performance” ($\chi^2 /d$: 1.04, RMSEA: 0.024, GFI: 0.948, CFI: 0.998 and $\chi^2 /d$: 1.42, RMSEA: 0.078, GFI: 0.930, CFI: 0.981 respectively)

Similarly, impact of “Competency model integration to HR systems”, and “HR functions effectiveness” on Market Performance also show a good model fit $\chi^2 /d$: 1.09, RMSEA: 0.037, GFI: 0.960, CFI: 0.995 and $\chi^2 /d$: 1.18, RMSEA: 0.088, GFI: 0.937, CFI: 0.970 respectively)
The findings also reveal good fit with regard to impact of “Competency Model (CM) integration to HR systems” on “HR Function Effectiveness” ($\chi^2 / df: 1.31, RMSEA: 0.067, GFI: 0.952, CFI: 0.990$).

These findings, thus, support the hypotheses 1, 2 and 3.

The SEM path diagrams are shown in figure 2, 3 and 4.

From these findings, thus, it can be inferred that Competency model integration to HR systems strongly and positively influence the organisation performance both in terms of performance of internal performance measures (“Organisational Performance” as referred in this paper) well as market performance. The results also support the hypothesis that competency model integration to HR system enhances the HR functional effectiveness.

HR function effectiveness also found to have positive influence on organisational performance. Though the full model (Competency model integration to HR systems as well as HR system impacting Market performance) found to be a good model fit in SEM analysis, but as can be seen in figure 3, the path coefficient of HR function effectiveness to Market performance indicates negative path coefficient(-0.32). However, with regards to relationship between “HR function effectiveness” as independent variable and “Market performance” as dependant variable, in the SEM analysis (shown in figure 4) the path coefficient of HR function effectiveness to Market performance found to be positive (0.19) and fit indices also found to be satisfactory ($\chi^2 / df: 1.54$ and RMSEA: 0.88GFI: 0.937, CFI: 0.965).

Hypotheses test of 4a, 4b and 4c

First I did the MNOVA analysis to estimate the statistical significance of differences, if any, in perceptions of HR managers versus Line managers on relationships of “Integration of Competency Model to HR Systems” and “HR Function Effectiveness” with “Organisational Performance” and “Market performance”. Subsequently I performed split data regression analyses to understand the extent of such differences, if at all exit.

A one way MANOVA revealed the multivariate effect significant at 0.004 level on functional area (HR versus Line managers). Wilk’s $\lambda = 0.795, F (4, 66) = 4.266, p < 0.1, power to detect the effect is 0.910.

Given the overall test significance at .004 level, I examined the univariate main effects. Significant univariate main effects between HR managers and Line managers has been found only for the variable “HR function effectiveness” ($F = 7.582, p <0.01, partial eta square =.099, power = .775$). Table 4 shows the MANOVA results of “tests between the subject effects”.

Having understood the statistical significance of differences in perceptions between HR and non-HR (Line managers) group, I performed split-data regression analyses to evaluate the extent of differences in terms of impact of the independent variables “Integration of Competency Model to HR Systems” and “HR Functional effectiveness” on dependant variables “Organisational Performance” and “Market Performance”.

The findings of regression analyses are given in table 5, table 6, and table 7.
As the results suggest (Table 5, Model 1) impact of “Integration of competency to HR systems” on the “Organisational Performance”, the $R^2$ value (0.636 and 0.691 for HR managers and Line managers respectively) and $\beta$ value (.0798 and 0.831 for HR managers and Line managers respectively) for both HR managers and Line managers, though quite close (the differences are statistically not significant as indicated by MANOA results), these values for Line managers are comparatively higher. Similarly the impact of “Competency Model Integration to HR Systems” on “Market Performance”, (table 6, model 1) explained in terms of $R^2$ and the effect in terms in terms $\beta$, reveal ($R^2$ value of 0.444 and 0.455 for HR managers and Line managers respectively and $\beta$ value of 0.666 and 0.674 for HR managers and Line managers respectively) that the Line managers perceptions are marginally better than HR managers and they are significant at p value < .01. In the multiple regression analysis of the impact of “Integration of competency Model to HR systems” and “HR function effectiveness” on the “Organisational Performance” (model 3 of table 5), it is found that evaluation by both HR managers and Line managers with regard to impact of “Integration of Competency Model to HR Systems” on “Organisational Performance” is statistically highly significant and interestingly, evaluation by Line managers compare to HR managers ($\beta$ value of .780 for Line managers as against 0.484 for HR managers) is much higher. The same analysis pertaining to impact on “Market Performance” (model 3 of table 6) evaluated by both the groups, the impact has been found to be statistically highly significant, and $R^2$ and $\beta$ value of HR managers are marginally better than the Line managers (0.678 of HR managers and 0.639 of Line managers). Taken together the MANOVA analysis and split-data regression analyses (both single and multiple regression), it could reasonably be inferred that evaluation of impact of “Integration of Competency Model to HR systems” on both organisational as well as market performance by Line managers are comparatively higher than that of the HR managers. This finding, therefore, does not support the hypothesis 4a, that says HR managers evaluate impact of “competency model integration to HR systems” on organisation performance much higher that the Line managers. On the contrary, Line managers seem to evaluate the impact of competency model integration to HR systems on organisation performances, higher than the HR managers.

With regard to impact of “HR function effectiveness” on “Organisational Performance” (model 2 of table 5) the single regression analysis shows the evaluation by both groups is statistically highly significant but evaluation by HR managers of the impact is much higher than same by the Line managers ($R^2$ value 0.595 and 0.155 and $\beta$ value 0.779 and 0.432 for HR managers and Line managers respectively). The multiple regression data (Model 3 of Table 5) shows that while impact evaluated by HR managers is statistically significant ($\beta$: 0.391 at p < 0.05), but the same for Line managers is not statistically significant. With regard to impact on “Market Performance” the single regression data (mole 2 of table 6) while indicates that evaluation by both HR managers and Line managers are statistically significant at p <.01 level, the evaluation by HR managers is much higher compare to Line managers ($R^2$ value 0.239 and $\beta$ value of 0.489 for HR managers, $R^2$ value 0.155 and $\beta$ value of 0.394 for the Line managers). The multiple regression data (model 3 of table 6) shows HR managers evaluation has negative (0.014) impact, but not statistically significant and evaluation by Line managers is also not statistically significant. Thus, these analyses lead to mixed findings. The results while support the hypothesis 3c with regards to HR effectiveness impact on Organisational performance (internal organisation performance measures), but does not hold
true in case of Market Performance. This means the HR managers considers the HR function effectiveness impact on organisation performance in terms of product/service quality, Products/services innovation, attraction & retention talent, relationship of employees with management and overall amongst employees, at a much higher extent than the same by the Line managers. But there seems to be no differences in evaluation of HR function effectiveness impact on market performance by both the groups and, thus these findings do not support hypothesis 34c to that extent.

Table 7 shows the findings of impact of “Integration of Competency Model to HR systems” on “HR Function Effectiveness”

(Table 7 goes about here)

The results show a strong impact of integration of competency model to HR systems on HR function effectiveness. However, it is clearly evident from both R² and β coefficient values that HR managers consider this relationship at a much greater extent than the Line managers. This findings, thus, supports the hypothesis 4b, which implies that HR managers consider the impact integration of competency model to HR systems on HR function effectiveness at a much higher level than the same by Line managers.

Discussions

This study empirically established that competency model integration to human resource management systems do strongly and positively impact both organisation’s internal performance like product & service quality, innovations of products & services, attracting & retaining key talents, relationship between management and employee and employees, as well as market performance in terms of sales growth, profitability and market share. Thus, this finding is in line with propositions and views propounded by several HR theorist and academician like Boyatzis (1992, 2008), Lawler (1999, 2008), Athey and Orth (1999). However, the findings of this study are unique in the sense that the Line managers do believe more than the HR managers that integration of competency model in HR systems does add value to an organisation. Though this finding is subject of further investigation, but it gives a new direction to HR professionals to leverage the competency approach in management to add value to business in recognising the fact that Line managers consider the importance competency approach in management in enhancing organisation performance more than they do. The possible reason of Line managers perceiving competency approach in HR systems more positively than HR managers may be that they are the main constitutes of using and leveraging competency based HR practices (Wright et al, 2001, Tsui, 1987). The study strongly provides the evidence that competency model integration to HR systems significantly add values to HR function effectiveness. This view is supported by both HR and Line managers. However, HR managers evaluate such impact in much greater extent than that of the Line managers. This reflects the perspectives of traditional HR-line managers’ functional conflict that while HR managers likely to exaggerate their own functional effectiveness; the line managers may undermine the HR contributions (Wright et al, 2001). The findings of this study with regard to influence of HR functional effectiveness on organisation performance gives a mix perspective. This study shows that HR function effectiveness strongly influence organisational performance in terms of internal measures like product & service quality, innovations of products & services, attracting & retaining key talents, employee-management and overall relationships, which reflects building of firm specific unique human capitals. This finding is in line with propositions of Lado and Wilson (1994), Becker and Huselid (1999). However, the findings with respect to influence of HR functional effectiveness on market performance in terms of sales growth, profitability and
market share is disappointing. It shows that the influence may be insignificant or negative, which goes against the finding of many scholars of strategic human resource management like Huselid (1995), Guest, Michie and Sheehan (2003). It requires an in-depth further study and research before drawing any conclusion.

**Limitations**

There are several limitations of this study, amongst which the major one is the limited sample size. Any specific conclusion with such limited sample is to be made with caution. More particularly, the sample size for HR managers and Line managers, separately, required to be much higher for more reliable statistical analysis. The findings of the study, however, set directions for several future researches. Another, major limitation could be the simplicity of the research hypotheses, which may appear to be so obvious. Though seems obvious, but it is not necessarily be so obvious according to the findings of this study. To arrive at specific conclusions, possibly, more robust approach may be needed, like longitudinal study with respect to before and after adoption of competency models. Understanding of the interplays of several variables like size of the organisations in terms of workforce and revenue, nature of industry, gender influence etc. could make the study more insightful.

**Conclusion**

The importance of competency approach in human resource management is recognised beyond doubt by many practitioners and HR theorist and scholars time and again (Becker and Huselid, 1999; Athey and Orth, 1999; Rodriguez et al 2002; Boyatzis, 2008). However, empirical studies on its actual effectiveness in HR function and organisation performance are rare (Hefferman and Flood, 2000). This study makes contribution in empirically investigating the implications of competency model integration to HR systems organisation performance and HR function effectiveness. The findings of this study support the view that competency approach in management practices has the potential in creating unique and idiosyncratic human capital to an organisation that add values, rare in nature, immobile and difficult to imitate (Lado and Wilson, 1994; Becker and Huselid, 1999; Becker and Gerhart, 1996). The findings of this study that line managers consider the importance of competency management approach for organisation performance in terms of internal performance measures as well as market performance at a much level than the HR professional do, brings in an unique insight in this field. This has practical implication in reinforcing the competency approach movement in management not just as a part of HRM practices but as a critical organisational strategic management tool. It is admitted that further researches are required to make specific and concrete inferences, however, this study contributes in making a foundation for future research.

**References**


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INTEGRATION OF COMPETENCY MODEL TO HR SYSTEMS:
IT'S IMPACT ON ORGANISATION PERFORMANCE AND HR FUNCTION


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Ulrich Dave, Brockbank Wayne, Johnson Dani, and Younger Jon (2009), Human Resources Competencies, The RBL white paper series, pp1-7


Table 1

<table>
<thead>
<tr>
<th>Fit Indices</th>
<th>Ideal Value</th>
<th>Competency model integration to HR systems</th>
<th>HR effectiveness</th>
<th>Organisational Performance</th>
<th>Market Performance</th>
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<tr>
<td>GFI</td>
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<td>0.852</td>
<td>1.00</td>
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<tr>
<td>CFI</td>
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<td>1.00</td>
<td>0.953</td>
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<tr>
<td>$\chi^2$/df</td>
<td>&lt; 2</td>
<td>6.062</td>
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Modification:
1. Item 1 and 2 have been merged
2. Item 4 and 5 have been merged
3. Item 6 and 7 have been merged

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<td>2. Item 3 and 4 have been merged</td>
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<tr>
<td>3. Item 6 and 7 have been merged</td>
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<td>Saturated model, perfect fit</td>
</tr>
</tbody>
</table>

Note:
Modified Factor model of Competency Model Integration To HR Systems
1. CM12: Integration of Recruitment, Training & Development to HR Systems
2. CM45: Integration of Performance Management System, Manpower Deployment & Job

Factor model of Competency Model HR Effectiveness
1. HR1: HR Services; 2. HR2: HR Roles; 3. HR3: HR Delivery

Modified Factor model of Organisation Performance
1. OP12: Quality of Products & Services and Development of New Products/Services
2. OP34: Ability to attract and retain essential Employees
3. OP57: Satisfaction of Customers and/or Clients
4. OP67: Relationship between Management and Employees, and amongst Employees

Factor model of Market Performance
1. MP1: Sales Growth, MP2: Profitability, and MP3: Market Share

Table 2

Descriptive Statistics, Correlations and scale Reliability

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<th>Mean</th>
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<th>2</th>
<th>3</th>
<th>4</th>
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<tr>
<td>CMIH</td>
<td>3.563</td>
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<td>(.890)</td>
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<td>HREF</td>
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<td>.547</td>
<td>0.572**</td>
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<td>ORGPRF</td>
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<td>.499</td>
<td>0.821**</td>
<td>0.586**</td>
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<td>MKTPRF</td>
<td>3.859</td>
<td>.582</td>
<td>0.644**</td>
<td>0.339**</td>
<td>.702**</td>
<td>(.842)</td>
</tr>
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**Significant at the 0.01 level (2-tailed)
Figure in the parenthesis indicate Cronbach's Alpha
Note: CHIS: Competency model integration to HR system, HREF: HR function effectiveness, ORGPF: Organisational Performance, MKTPRF: Market Performance

Table 3
The findings Structural Equation Model (SEM) analysis in lisrel 8.0

<table>
<thead>
<tr>
<th></th>
<th>$\chi^2$</th>
<th>df</th>
<th>$\chi^2$/df</th>
<th>RMSEA</th>
<th>GFI</th>
<th>CFI</th>
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<td><strong>Impact on Organisational Performance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>i) Competency integration to HR System</td>
<td>13.53</td>
<td>13</td>
<td>1.04</td>
<td>0.024</td>
<td>0.948</td>
<td>0.998</td>
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<td>ii) HR Function Effectiveness</td>
<td>18.49</td>
<td>13</td>
<td>1.42</td>
<td>0.078</td>
<td>0.930</td>
<td>0.981</td>
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<tr>
<td>iii) Combinedly (i) &amp; (ii): Full model</td>
<td>38.57</td>
<td>32</td>
<td>1.21</td>
<td>0.054</td>
<td>0.901</td>
<td>0.989</td>
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<tr>
<td><strong>Impact on Market Performance</strong></td>
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</tr>
<tr>
<td>i) Competency integration to HR System</td>
<td>8.75</td>
<td>8</td>
<td>1.09</td>
<td>0.037</td>
<td>0.960</td>
<td>0.995</td>
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<td>ii) HR Function Effectiveness</td>
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<td>1.18</td>
<td>0.088</td>
<td>0.937</td>
<td>0.970</td>
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<td>iii) Combinedly (i) &amp; (ii): Full model</td>
<td>43.7</td>
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<td>0.901</td>
<td>0.976</td>
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<td>8</td>
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<td>0.067</td>
<td>0.952</td>
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Table 4
Findings of MANOVA analysis (Perception differences of HR Managers versus Line Managers)

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<tr>
<th>Dependent Variables</th>
<th>F</th>
<th>Sig.</th>
<th>Partial eta Squared</th>
<th>Observed Power</th>
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</thead>
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<tr>
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<td>2.356</td>
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Table 5
Findings of regression analysis: Impact on Organisational Performances

<table>
<thead>
<tr>
<th>Competency Model Integration and HR Function Effectiveness Impaction Organisational Performance</th>
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<tbody>
<tr>
<td>Model 1</td>
</tr>
<tr>
<td>HR Nom-HR</td>
</tr>
<tr>
<td>R²</td>
</tr>
<tr>
<td>β</td>
</tr>
<tr>
<td>F</td>
</tr>
</tbody>
</table>

Note:
HR: HR managers; Non-HR: Line managers
CM→ OP: “Integration of Competency Model to HR systems” impacting “Organisational Performance”
HR→ OP: “HR Function Effectiveness impacting “Organisational Performance”
Model 1: “Integration of Competency Model to HR systems” impacting “Organisational Performance”
Model 2: “HR Function Effectiveness” impacting “Organisational Performance”
Model 3: Multiple regression model with moth Integration of Competency Model to HR systems” and “HR Function Effectiveness” as independent variables and “Organisational Performance” as dependant variable

Table 6
Findings of regression analysis: Impact Market Performance

<table>
<thead>
<tr>
<th>Competency Model Integration and HR Function Effectiveness Impaction Market Performance</th>
</tr>
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<tbody>
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<td>Model 1</td>
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<tr>
<td>HR Nom-HR</td>
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<td>R²</td>
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<tr>
<td>β</td>
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<td>F</td>
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</table>

Note:
HR: HR managers; Non-HR: Line managers
CM→ MP: “Integration of Competency Model to HR systems” impacting “Market Performance”
HR→ MP: “HR Function Effectiveness impacting “Market Performance”
Model 1: “Integration of Competency Model to HR systems” impacting “Market Performance”
Model 2: “HR Function Effectiveness” impacting “Market Performance”
Model 3: Multiple regression model with moth Integration of Competency Model to HR systems” and “HR Function Effectiveness” as independent variables and “Market Performance” as dependant variable
Table 7
Findings of regression analysis: Impact of “Integration of Competency Model to HR Systems” on “HR Function Effectiveness”

<table>
<thead>
<tr>
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<th>HR managers</th>
<th>Line Managers</th>
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<tbody>
<tr>
<td>$R^2$</td>
<td>0.644</td>
<td>0.129</td>
</tr>
<tr>
<td>$\beta$</td>
<td>0.803***</td>
<td>0.359**</td>
</tr>
</tbody>
</table>

***$p < 0.01$, **$p < 0.05$ (2-tailed)

Figure 1
Relationship of “Competency model integration to HR system (CHIS)” with “HR function Effectiveness (HR)” and “Organisational Performance (OP), and Relationship of “HR function Effectiveness (HR) with Organisational Performance (OP)”

Note:
CM: Competency model integration to HR systems; CM12: Competency Model (CM) integration to Recruitment, selection, Training & Development; CM3: CM integration to Performance Management System; CM45: CM integration to succession & planning and manpower planning, deployment & job rotations; HR: RR Function Effectiveness; HR1: HR services; HR2: HR Role; HR3: HR Delivery; OP: Organisational Performance; OP1: Quality of products & service; OP2: Development of new products & services; OP3: Ability to attract essential employees; OP3:
Ability to retain essential employees; OP5: Satisfaction of customers/ Clients; OP5: Relationships between management and employees; OP7: Relationship amongst employees in general

**Figure 2**

Relationship of “Competency model integration to HR system (CHIS)” with “HR function Effectiveness (HR)” and “Market Performance (MP)” and Relationship of “HR Effectiveness (HR)” with “Market Performance (MP)”

Note: CM: Competency Model Integration to HR system; CM12: Competency Model (CM) integration to Recruitment, selection, Training & Development, CM3: CM integration to Performance Management System; CM45: CM integration to succession & planning and manpower planning, deployment & job rotations; HR: HR function effectiveness; HR1: HR services; HR2: HR Roles; HR3: HR Deliver; MP: Market Performance; MP1: Sales Growth; MP2: Profitability; MP3: Market Share
Figure 3

Relationship of “HR function Effectiveness (HR)” and “Market Performance (MP)”

Note:
HR: HR function effectiveness; HR1: HR services; HR2: HR Roles; HR3: HR Deliver;
MP: Market Performance; MP1: Sales growth; MP2: Profitability; MP3: Market Share
An Investigation into the Cultural Antecedents of Corruption

Abstract

This study aims at investigating the effects of cultural values on corruption by integrating Hofstede’s, Schwartz’s, and Inglehart’s frameworks. The empirical analysis confirms that after controlling for the effects of socio-economic development, cultural values have considerable influence on the level of perceived corruption. More specifically, it is found that Hofstede’s High Power Distance, High Uncertainty Avoidance, Masculinity and Collectivism, Schwartz’s Conservatism and Harmony, and Inglehart’s Survival and Traditional-religious dimensions are associated with the corrupt behavior. By contrast, the opposite values namely Hofstede’s Low Power Distance, Low Uncertainty Avoidance, Femininity, and Individualism, Schwartz’s Autonomy and Mastery, and Inglehart’s Self-Expression and Rational-secular dimensions tend to impede corruption. Building on a principal-agent perspective, the theoretical and practical implications are discussed and an integrative model is proposed.

Keywords: Corruption, Corrupt Business Behavior, Culture, Cultural Values, Ethics, Hofstede, Schwartz, Inglehart

Introduction

Corruption is a widespread phenomenon which constitutes a major obstacle to democracy, impedes economic development and prosperity, and ultimately erodes the social order, peace and stability (Transparency International Report, 2010; Mauro, 1995; Kaufmann and Kraay, 2002). For that reason, in the past years, corruption has become a major source of concern for policymakers, business leaders, and managers across the world. Due to its complex nature, fighting corruption requires a profound understanding of the underlying socio-economic factors. Among the various socio-economic influences, cultural values seem particularly important as they consist of desirable trans-situational goals that serve as guiding principles in the life of a person or social entity (Schwartz, 1994). While the previous studies have recognized the importance of cultural values in shaping business ethics (e.g. Davis and Ruhe, 2003; Park, 2003; Husted, 1999), it seems that the nature of cultural influence on the corrupt behavior has not been properly understood (Ford and Richardson, 1994; Schlegelmilch and Robertson, 1995). A review of the literature reveals that the previous studies often involve a small number of countries, include narrow conceptualizations of cultural values, and suffer from a limited external validity (e.g. Parmoteeah, Bronson, Cullen, 2005; Cullen et al., 2004; Husted, 1999; 2000; Sanyal, 2005; Seleim and Bontis, 2009).

The current study aims at filling the gap in the literature by conducting a broad, multi-model, and cross-national analysis of the effects of culture on corruption. More specifically, the present study involves a large number of countries and integrates three widely employed cultural models, namely Schwartz’s, Hofstede’s and Inglehart’s frameworks. The concurrent application of these three cultural frameworks has important theoretical and managerial
implications, as it provides a comprehensive understanding of the nature of cultural influence on corruption and offers an integrative model for scholars and practitioners.

The remainder of this manuscript has been organized as follows. The first part is devoted to the conceptualization of corruption and explanation of Schwartz’s, Hofstede’s and Inglehart’s cultural dimensions. In the second part the relationships among concepts are discussed and the hypotheses, variables, and theoretical models are presented. Finally, in the third part, the empirical tests are conducted, the theoretical/managerial implications are discussed, and an integrative model is proposed.

**Corruption Conceptualized**

Conventionally, corruption is a broad concept that may refer to any kind of dishonest, illegal, or unethical behavior such as bribery, extortion, buying influence, nepotism, favoritism, fraud and embezzlement. Transparency International (2010) defines corruption as “the misuse of public power for private benefit which involves applying illegal and/or unethical behaviors” (Transparency International Report, 2010). In the same vein, corruption can be viewed as an exchange between two parties which involves the use of public or collective responsibility for private ends (Macrae, 1982). Since corruption is such a broad concept, it may have different explanations and motivations (LaPalombara, 1995; Oldenburg, 1987; Coase, 1979).

According to the principal-agent theory, corruption occurs when an agent betrays the principal’s interest in the pursuit of his or her own self-interest (Persson et al., 2010). This betrayal is made possible by the information asymmetry between the two groups of actors (Rose-Akerman, 1978; Klitgaard, 1988). In order to reduce corruption, the principal should aim at negatively affecting the agent’s motivations engaging in corrupt behavior. This could most effectively be done through control instruments that decrease the level of discretion among agents, limit the monopoly of agents, and increase the level of accountability (Klitgaard 1988). As such, the principal-agent model hinges on the assumption that the principal will take on the role of controlling corruption (Klitgaard 1998; Galtung and Pope 1999; Rauch and Evans 2000; Andvig and Fjeldstad 2001; Mungiu-Pippidi 2006). By relying on the principal-agent theory, Klitgaard (1998) adequately conceptualized corruption in a simple equation as follows:

**Equation 1**

\[
\text{Corruption} = \text{Economic Rent} + \text{Discretionary Powers} - \text{Accountability}
\]

From the above equation it is concluded that the corrupt behavior is caused and aggravated mainly by three factors:

- **Economic Rent**: The country has a large number of complex, inconsistent and non-transparent laws, rules, and regulations and thereby creates huge opportunities for generating economic rent.
- **Discretionary Powers**: Managers and administrators are granted huge discretionary powers.
- **Accountability**: There are no effective mechanisms to hold managers and administrators accountable for their actions (Myint, 2000).

**Corruption Measurement**

The Corruption Perception Index (CPI) developed by the Transparency International (TI) is a popular measure of corruption which is based on an aggregation of multiple surveys of public and expert opinion. The CPI offers scores for nearly 170 countries on an annual basis. According to the TI, the CPI is “a composite index drawing on 14 different polls and surveys
from seven independent institutions carried out among business people and country analysts, including surveys of residents, both local and expatriate” (Transparency International, 2001). In the past years, the CPI has relied on some reliable sources such as Political and Economic Risk Consultancy (Hong Kong), the World Economic Forum (Switzerland), the Institute for Management Development (Switzerland), PricewaterhouseCoopers, the World Bank’s World Business Environment Survey, and Freedom House (Golden and Picci, 2005).

Despite its increasing popularity, the CPI has some intrinsic weaknesses as its real degree of reliability is unknown. Indeed, measuring corruption with perception-based survey information seems a major weakness that might affect the CPI’s accuracy. Due to operational limitations the CPI is probably less reliable for developing nations (Golden and Picci, 2005). Furthermore, the previous publicized CPI data may affect the perceptions of respondents about some countries and make them report what they have seen in the previous TI reports rather than their own experiences (Golden and Picci, 2005; Stefes, 2007).

Culture Conceptualization: Schwartz’s, Hofstede’s, and Inglehart’s Frameworks

For the purpose of this study, culture can be defined as the accumulation of shared meanings, rituals, norms, and traditions that distinguishes members of one society from another (Hofstede, 1980). In the business research it is common to identify several cultural dimensions and analyze them across borders. House et al. (2004), Schwartz (1992, 1994), Hofstede (2001), Inglehart (1997), Hampden-Turner and Trompenaars (1994), Hall (1977), and Kluckhohn and Strodtbeck (1961) provide us with different conceptual models of cultural analysis. Among all these models, Hofstede’s, Schwartz’s and Inglehart’s frameworks have received remarkable acceptance from researchers and practitioners (e.g. Drogendijk and Slangen 2006; Kirkman et al., 2006; Smith, Peterson, and Schwartz, 2002; Parboteeah, Bronson, Cullen, 2005). These three frameworks represent large-scale, reliable, and innovative studies that improve upon previous research in many respects and provide relatively comprehensive and simple operational models of cultural analysis.

Hofstede’s Framework

According to Hofstede (1980; 2001), national cultures are described in five dimensions: Power Distance, Individualism/Collectivism, Masculinity/Femininity, Uncertainty Avoidance and Long/Short-term orientation. The first dimension, Individualism versus Collectivism, refers to the relationship between the individual and the group. Hofstede (1980) views an individualistic society as one in which beliefs and behaviors are determined mainly by the individual, whereas in a collectivistic society, loyalty towards one’s family, job, and country tend to determine the attitudes. The second dimension, Power Distance, focuses on the inequality that exists between people within the society. Uncertainty Avoidance denotes the extent to which individuals within a culture feel threatened by uncertain or unknown events, and the corresponding degree to which society creates rules, espouses absolute truth, and refuses to go against nature in order to avoid risks. In a masculine culture, there are higher concerns for achievement, promotion, and challenges in work while in a feminine culture, good relationships, security in work and a desirable living environment are of prime importance (Hofstede, 1980; 2001). The fifth dimension is Long-term orientation versus Short-term orientation which is also referred to as Confucian dynamism. Due to the limited data, the fifth dimension is not included in this study.
Schwartz’s Framework
Schwartz (2006; 1992; 1994) has described national culture in three pairs of value types: Conservatism/Affective-Intellectual Autonomy, Hierarchy/Egalitarianism, and Mastery/Harmony. The Conservatism value type is characterized by social order, respect for tradition, family security and wisdom. Conservative cultures emphasize the status quo, propriety and restraint of actions or inclinations that might disrupt the solidarity or the traditional order (Schwartz, 1992; 1994). The Autonomy value type emphasizes the pursuit of individual desires. In hierarchical societies, cultural emphasis is on the legitimation of an unequal distribution of power, roles and resources, authority and wealth. In contrast, Egalitarianism corresponds to features such as equality, social justice, freedom, responsibility, and honesty. Mastery/Harmony is the third pair of Schwartz’s cultural values. Mastery is characterized by active self-assertion, ambition, success, daring and competence. Harmony cultural value accepts the world as it is and emphasizes the unity with nature (Schwartz, 1992; 1994).

Inglehart’s Model
Inglehart et al. (1997; 2000; 2003; 2005) relied on two dimensions to explain cultural and social differences across the world: Traditional/Secular-rational and Survival/Self-expression. The Traditional/Secular-rational dimension reflects the contrast between societies in which tradition and religion are very important and those in which they are not (Inglehart et al., 1997; 2000; 2003; 2005). Societies characterized by Survival values emphasize materialist orientations, show relatively low levels of subjective wellbeing, report relatively poor health, tend to be intolerant of out-groups such as foreigners, women and homosexuals, rank relatively low on interpersonal trust, and emphasize hard work rather than imagination or tolerance. By contrast, Self-expression values can be characterized by an increasing emphasis on subjective well-being and quality of life (Inglehart et al., 1997; 2000; 2003; 2005).

Hypotheses

Hofstede’s Collectivism/Individualism
In collectivistic cultures, morality refers to the maintenance of solidarity and is defined in terms of the good of the community members such as family, friends and colleagues (Husted, 2000). Thus, in collectivistic cultures, ethical compliance is sought through interpersonal relations rather than formal structures (Weaver, 2001). The emphasis on interpersonal relations may lead to favoritism, nepotism, and ultimately corruption. Several authors have found a relationship between Hofstede's Collectivism and corruption (Hooper, 1995; Husted, 1999; 2000; Banfield, 1958; Parboteeah et al., 2005). For instance, Husted (2000) reported that people in collectivistic cultures are more likely to engage in software piracy because they are willing to share software with members of their in-group. Similarly, LaPalombara (1994) found that people in collectivistic cultures are very susceptible to violate written laws. By contrast, in individualistic cultures interpersonal relations are less important, the ethical compliance is sought through formal structures, and regulations are often respected.

Thus, we may put forward the following hypothesis:
H-1: Hofstede’s Collectivism and Individualism are associated respectively with higher and lower levels of corruption.

Hofstede’s High/Low Power Distance
High Power Distance involves dependence of subordinates on their superiors, obedience to authority, status consciousness, and hierarchical decision making (Hofstede, 1980; Trevino,
In High Power Distance cultures power provides social order, relational harmony, and role stability. Furthermore, in these cultures information is controlled and different groups have unequal involvement (Carl et al., 2004). Thus, it is plausible to assume that in High Power Distance societies, the elites enjoy more discretionary powers and are less likely to be challenged or persecuted (Sanyal, 2005; Cohen et al., 1996; Getz and Volkema, 2001; Seleim and Bontis, 2009). By contrast, in Low Power Distance societies, superiors and subordinates gaps are smaller, titles and status are less important, and consequently there is more harmony and cooperation (Davis and Ruhe, 2003). Indeed, several researchers suggest that High Power Distance societies are likely to be more corrupt than Low Power Distance cultures (Park, 2003; Davis and Ruhe, 2003; Weaver, 2001).

Thus, we may suggest:

H-2: Hofstede’s High and Low Power Distance dimensions are associated respectively with higher and lower levels of corruption.

Hofstede’s High/Low Uncertainty Avoidance

According to Hofstede (1980), the societies characterized by High Uncertainty Avoidance rely upon numerous rules and norms to reduce uncertainty. The abundance of complex rules and regulations may create occasions for generating economic rent. Several researchers have reported a link between High Uncertainty Avoidance and corruption (e.g. Vitell et al., 1993; Getz and Volkema, 2001; Husted, 1999). For instance, Vitell et al. (1993) argued that people from High Uncertainty Avoidance cultures are less likely to perceive the moral issues involved in a given business practice. In other words, while High Uncertainty Avoidance means creation of rules to reduce ambiguity, ironically, the same rules are usually quite rigid and thus not practically observed (Husted, 2000). By contrast, in Low Uncertainty Avoidance cultures, rules and regulations are less abundant, but more often observed (Hofstede, 1980).

Therefore, we propose the following hypothesis:

H-3: Hofstede’s High and Low Uncertainty Avoidance dimensions are associated respectively with higher and lower levels of corruption.

Hofstede's Masculinity and Femininity

Masculinity refers to a focus on material achievement as opposed to a concern with the quality of life (Hofstede, 1997). People in masculine cultures attach importance to assertiveness, material possession, performance and ambition. In contrast, feminine cultures emphasize human needs, care, and interdependence. Several scholars have argued that the higher levels of Masculinity and accelerated pursuit of material success may be associated with unethical or corrupt business behavior (e.g. Parboteeah et al., 2005; Husted, 1999; Sanyal, 2005). For the same reason, Husted (2000) argued that higher levels of Femininity are associated with unethical and corrupt conduct.

Accordingly, we may hypothesize:

H-4: Hofstede’s Masculinity and Femininity dimensions are associated respectively with higher and lower levels of corruption.

Schwartz’s Conservatism/Autonomy

Like Collectivism, Conservatism dimension is associated with strong interpersonal and family ties which may create opportunities for nepotism, favoritism, bribery and deviation from rules and regulations (Husted, 1999; 2000; Banfield, 1958). By contrast, in societies marked by Autonomy, interpersonal relations are less important, authority is less respected,
and gender roles are less distinct. Consequently, in societies marked by Autonomy, the nepotistic relations are less prevalent and the decision-making and moral compliance follow structured patterns.

Thus, we can suggest:
H-5: Schwartz’s Conservatism/Autonomy dimensions are associated respectively with higher and lower levels of corruption.

**Schwartz’s Hierarchy/Egalitarianism**

Schwartz (1992) maintains that Egalitarianism cultural value corresponds to features such as equality, social justice, freedom, responsibility, and honesty. On the other hand, Hierarchy is associated with the opposite values such as authoritarian decision-making, paternalism, and a strong sense of class culture. Since in hierarchical cultures the elites enjoy a privileged status, it is plausible to assume that they cannot be held accountable for their actions (Sanyal, 2005; Cohen et al. 1996; Husted, 1999; 2000; Getz and Volkema, 2001; Seleim and Bontis, 2009). However, in egalitarian societies, the elites enjoy less discretionary powers and are under close scrutiny.

Thus, we put forward the following hypothesis:
H-6: Schwartz’s Hierarchy/Egalitarianism dimensions are associated respectively with higher and lower levels of corruption.

**Schwartz’s Mastery/Harmony**

Mastery cultural value is characterized by active assertiveness, and is associated with some male-driven values such as ambition, achievement, material reward, and functionality. By contrast, in societies marked by Harmony, people should fit harmoniously into the natural and social world and avoid conflict and self-assertion. In that sense, Harmony involves the values that are opposed to assertiveness, ambition, and conflict. The stronger motivation for material success and achievement may lead to unethical or corrupt business behavior (Parboteeah et al., 2005; Husted, 1999; Sanyal, 2005). By the same logic, a harmonious relationship with others and emphasis on quality of life may impede the corrupt business conduct (Husted, 2000).

Thus, we suggest:
H-7: Schwartz’s Mastery/Harmony dimensions are associated respectively with higher and lower levels of corruption.

**Inglehart’s Traditional/Secular-rational**

Traditional societies attach importance to interpersonal relations, parent/child ties, absolute moral standards, and religious beliefs (Inglehart et al., 2000; 2003; 2005). Furthermore, traditional societies have a high esteem of authority and are governed mainly by totalitarian, undemocratic, and oppressive regimes. For that reason, favoritism, nepotism, discretionary powers, and the elites’ unaccountability may be more prevalent in the traditional societies. On the other hand, societies with Secular-rational values are marked by rationality, individualism, and loose interpersonal relations. People in such cultures are mainly governed by democratic regimes. Therefore, the Secular-rational cultures are less susceptible to nepotism, favoritism, and the officials’ unaccountability.

Thus, we can hypothesize as following:
H-8: Inglehart’s Traditional/Secular-rational dimensions are associated respectively with higher and lower levels of corruption.
Inglehart’s Survival/Self-expression

The Survival dimension is generally seen in undeveloped countries and is associated with emphasis on existence, low levels of subjective well-being, and relatively low levels of interpersonal trust. Such values and attitudes may lead to opportunistic and corrupt business behavior. By contrast, Self-expression values can be characterized by an increasing emphasis on subjective well-being and quality of life (Inglehart et al. 2000; 2003; 2005). Since Self-expression values are associated with higher standards of living, trust and subjective well-being, they are less likely to lead to the corrupt behavior.

Thus, we formulate the following hypothesis:

H-9: Inglehart’s Survival/Self-expression dimensions are associated respectively with higher and lower levels of corruption.

Socio-economic Development

It is widely accepted that the socio-economic development impedes the corrupt behavior (Davis and Ruhe, 2003; Seleim and Bontis, 2009; Husted, 1999; 2000; Macrae, 1982; Easterly 2001; Rose-Ackerman and Kornai 2004; Olson 1996). As societies undergo the socio-economic development, people benefit from higher levels of well being, education and urbanization, advances in transportation, communications and mass media, and emergence of democratic and accountable political regimes (Husted, 1999). Under such circumstances, the prevalence of corrupt behavior diminishes. Furthermore, it is important to note that the concepts of culture and socio-economic development are closely interrelated (e.g. Bell, 1973; Chirot, 1977; DiMaggio, 1994; Inglehart, 1997; Hofstede, 1980, 2001; Schwartz, 1992, 1994; Inglehart and Welzel, 2005). Therefore, in investigating the relationship between culture and corruption we should control for the mediation effects of socio-economic variable. Gross National Income (GNI) per capita and Human Development Index (HDI) are two reliable constructs that are often used to measure the level of socio-economic development.

To control for the effects of socio-economic development, we suggest the following hypothesis:

H-10: The economic development (measured as GNI per capita and HDI) is associated with lower levels of corruption.

Theoretical Models

Consistent with the aforementioned hypotheses, we take Corruption (COR) as the main dependent variable that is likely to be affected by cultural dimensions (independent variables) and socio-economic development (control variables). Therefore, to investigate the effects of independent and control variables, we should estimate the following theoretical models.

Theoretical Model-1: Corruption & Hofstede’s Cultural Dimensions:

Equation 2
\[ COR = \alpha_0 + \alpha_1 \text{COL} + \alpha_2 \text{HPD} + \alpha_3 \text{MSC} + \alpha_4 \text{HUA} + \alpha_5 \text{LnGNICap} + \varepsilon_i \]

Equation 3
\[ COR = \alpha_0 + \alpha_1 \text{COL} + \alpha_2 \text{HPD} + \alpha_3 \text{MSC} + \alpha_4 \text{HUA} + \alpha_5 \text{HDI} + \varepsilon_i \]

Theoretical Model-2: Corruption & Schwartz’s Cultural Dimensions:

Equation 4
\[ COR = \alpha_0 + \alpha_1 \text{CON} + \alpha_2 \text{HIR} + \alpha_3 \text{MAS} + \alpha_4 \text{LnGNICap} + \varepsilon_i \]
Equation 5
\[ \text{COR} = \alpha_0 + \alpha_1 \text{CON} + \alpha_2 \text{HIR} + \alpha_3 \text{MAS} + \alpha_4 \text{HDI} + \epsilon_i \]

Theoretical Model-3: Corruption & Inglehart’s Cultural Dimensions:
Equation 6
\[ \text{COR} = \alpha_0 + \alpha_1 \text{RAT} + \alpha_2 \text{EXP} + \alpha_3 \text{LnGNICap} + \epsilon_i \]
Equation 7
\[ \text{COR} = \alpha_0 + \alpha_1 \text{RAT} + \alpha_2 \text{EXP} + \alpha_3 \text{HDI} + \epsilon_i \]

Where:
\( \text{COR} \) stands for Corruption.
\( \text{COL}, \text{HPD}, \text{MSC}, \text{HUA}, \text{CON}, \text{HIR}, \text{MAS}, \text{RAT} \) and \( \text{EXP} \) are scores for Collectivism, High Power Distance, Masculinity, High Uncertainty Avoidance, Conservatism, Hierarchy, Mastery, Rationality, and Self-Expression cultural dimensions.
\( \text{HDI} \) is the Human Development Index.
\( \text{LnGNICap} \) represents natural logarithm of the GNI per capita (PPP).
and \( \epsilon_i \) is a randomly distributed error term denoting any effects not captured in the independent variables of the model.

Data

We included all those countries for which the Schwartz’s, Hofstede’s and Inglehart’s cultural scores, the CPI, and the economic data were available. Annex 1 presents all the included countries. We utilized the 2005 release of Schwartz’s data for 55 countries surveyed during the years 1988-2004. The Hofstede’s and Inglehart’s cultural scores were obtained from their publications and World Value Survey resources (www.worldvaluessurvey.org). The data for the CPI were taken from the Transparency International website (www.transparency.org). Finally, the data for HDI and GNI per capita were obtained from the United Nations reports (2001-2010, www.hdr.undp.org) and International Monetary Fund (www.imf.org) respectively.

It is important to note that according to the Transparency International methodology, the higher values of the CPI reflect the lower levels of corruption. Therefore, we reversed the CPI scores provided by Transparency International in order to calculate the extent of perceived corruption. Furthermore, we utilized the average of the CPI for ten consecutive years between 2001 and 2010 to avoid any irregularity that might result from using the single year data. Indeed, a visual examination of data reveals that in comparison with cultural dimensions, the CPI scores are less stable over time. By the same logic and in order to enhance the robustness of study, we used the average of HDI and GNI per capita for ten consecutive years between 2001 and 2011. The GNI per capita in US dollars was adjusted for purchasing power parity (PPP). Given the wide variation in the GNI data, we computed the natural logarithm of this variable to reduce the distorting effects of very large numbers.

Results

Tables 1, 2 and 3 present the results of data analysis for the Hofstede’s, Schwartz’s, and Inglehart’s frameworks. The first model in Table 1 reveals that among the Hofstede’s dimensions, Collectivism (COL), High Power Distance (HPD), and High Uncertainty
Avoidance (HUA) are significantly associated with Corruption (COR) \((r = 0.680, r = 0.688, p < .01 \text{ and } r = 0.257, p < .05 \text{ respectively})\). Similarly, Table 2 shows that Schwartz’s Conservatism (CON) and Hierarchy (HIR) have positive correlations with Corruption (COR) \((r = 0.646 \text{ and } r = 0.494, p < .01 \text{ respectively})\). Table 3, however confirms a negative relationship between Corruption (COR) and Inglehart’s Rationality (RAT) and Self-Expression (EXP) cultural dimensions \((r = -0.447 \text{ and } r = -0.740, p < .01 \text{ respectively})\). Furthermore, as expected we observe a strong negative correlation between socio-economic development (GNI, HDI) and Corruption (COR).

The observed correlations between cultural dimensions and Corruption are important, but they do not imply any causal effects since they do not take into account the effects of other independent and control variables as presented in the theoretical models. In the next step, we employed the Ordinary Least Squares (OLS) to estimate the coefficients of all variables incorporated into Equations 2, 3 and 4. Since Corruption is a continuous dependent variable and the collected data are cross-sectional, this method seems suitable. Before explaining the OLS analyses, a few methodological issues should be addressed. There is a considerable correlation between cultural dimensions such as High Power Distance and Collectivism, Hierarchy and Conservatism, and Rationality and Self-Expression (Hofstede, 1997; Schwartz, 1992; 1994; Inglehart, 1997). However, these relationships may disappear if socio-economic development is held constant (Hofstede, 1997; Husted, 1999). Since the level of socio-economic development (HDI, LnGNI per capita) is included in the OLS models, the correlation among cultural dimensions does not seem to be a major concern in our study (Husted, 1999). Primarily, the requisite OLS assumptions were inspected. Using histograms for the residuals as well as normal probability plots, the normality and linearity of data were inspected and no major violation was observed. In addition, the ‘Casewise Diagnostic’ technique was employed and no potential outliers and leverages were detected (Meyers et al., 2006). As shown in Tables 1, 2, and 3, the VIF values for all the OLS models were largely smaller than 10 suggesting that multicollinearity was not considerable among independent variables (Allison, 1999). Furthermore, all estimates were checked for the presence of homoskedasticity using White’s test and residual plotting (Meyers et al., 2006; Stevens, 2002).

Table 1 presents the OLS results for Corruption and Hofstede’s cultural dimensions. The bivariate model reveals a significant correlation between Corruption and Collectivism (COL), High Power Distance (HPD) and High Uncertainty Avoidance (HUA). Similarly, Model-2 shows a positive and significant association between Corruption and all the Hofstede’s dimensions except High Uncertainty Avoidance (HUA). Model-3 is especially noteworthy as it confirms that even after controlling for the effects of socio-economic development (measured as GNI per capita) all the Hofstede’s dimensions have significant associations with Corruption. Model-4 confirms the results of the previous models, but it seems that introducing HDI as a proxy of socio-economic development removes the significance of Collectivism (COL) dimension.

Table 2 reveals that among Schwartz’s cultural variables, the effects of Conservatism are very considerable, because it has a significantly positive estimate in all four models. While Hierarchy has a positive correlation with Corruption, its marginal effects are erased once the economic control variables (HDI and LnGNI per capita) are introduced. On the contrary, it seems that in the presence of control variables, the effects of Mastery (MSC) cultural dimension come into sight (See Table 2, Models 2, 3, and 4). Surprisingly, while the Schwartz’s Hierarchy dimension is highly correlated with Corruption, after introducing the
control variables, it appears as insignificant. This insignificance of Hierarchy/Egalitarianism in the presence of control variables may be attributed to its strong correlation with GNI per capita.

Finally, Table 3 presents the OLS results for Corruption and Inglehart’s cultural dimensions. Interestingly, all models in this table reveal that Inglehart’s Rationality (RAT) and Self-Expression (EXP) even after controlling for the effects of socio-economic development have negative effects on Corruption.

According to Table 1, Hofstede’s dimensions in conjunction with HDI and LnGNI per capita can explain around 80% of the variation in Corruption for the 68 included countries. Table 2 shows that the value of ‘Adjusted R Square’ for Schwartz’s dimensions falls to about 65% for the 54 included countries. Finally, Table 3 reveals that Inglehart’s dimensions and socio-economic variables can explain about 75% of variation in Corruption for the 93 selected countries. Considering the large values of ‘Adjusted R Square’ it is suggested that the adopted theoretical models appropriately explain the variation in Corruption. Thus, it seems that we do not need to add other socio-political variables, as a combination of economic and cultural variables is sufficient to explain the level of perceived corruption. Indeed, addition of other socio-political variables may generate multicollinearity and harm the adequacy of the theoretical models.

Table 4 offers an integrative model summarizing the effects of Hofstede’s, Schwartz’s and Inglehart’s cultural dimensions on Corruption. The right-hand column in Table 4 includes Hofstede’s High Power Distance, High Uncertainty Avoidance, Masculinity and Collectivism, Schwartz’s Conservatism and Harmony, and Inglehart’s Survival and Traditional-religious cultural dimensions. As shown in Table 4, the right-hand dimensions are associated with the Corruption variable and seem very likely to promote the corrupt behavior. These collectivistic and traditional cultures are marked by the prevalence of interpersonal relations, obedience to authority, status consciousness, hierarchical decision making, unequal distribution of wealth and resources, powerful elites, restricted media, emphasis on survival, low levels of subjective well-being, and the importance of tribal/family ties. The prevalence of interpersonal and unstructured relations in such societies may result in the complex and opaque norms which are rooted mainly in tradition and religion. It is argued that the corrupt behavior is more widespread in these societies because their cultural values foster all the
three components of corruption namely Economic Rent, Discretionary Powers, and Unaccountability (See Equation 1). First, Collectivism and interpersonal relations lead to nepotism, favoritism, bribery, and deviance of regulations. Second, as in these societies the elites and administrators enjoy a high level of discretionary power; they tend to misuse their positions to benefit from numerous obscure regulations and pocket economic rent (Hofstede, 1980; Trevino, 1986). Third, in these societies the corrupt administrators/managers are expected to continue their misconduct as thanks to their discretionary powers they are hardly held accountable (Sanyal, 2005; Cohen et al., 1996; Husted, 2000; Getz and Volkema, 2001; Seleim and Bontis, 2009). From a principal-agent standpoint, the right-hand cultural values promote corruption as they fail to implement instruments to effectively monitor and control the agents (Persson et al., 2010; Rose-Akerman, 1978; Klitgaard, 1988).

The left-hand column in Table 4 includes Hofstede’s Low Power Distance, Low Uncertainty Avoidance, Femininity, and Individualism, Schwartz’s Autonomy and Mastery, and Inglehart’s Self-Expression and Rational-secular cultural dimensions. In such societies interpersonal relations are less important, authority is less respected, superiors’ and subordinates’ gaps are smaller, titles and status are less important, and the resources are more equally distributed. These societies are economically more advanced, put emphasis on rationality and self-expression, have strong public institutions, and enjoy efficient primary and higher education. It is argued that these cultural values impede Corruption by affecting the three main components namely Economic Rent, Discretionary Powers, and Unaccountability (See Equation 1). In other words, in such societies, thanks to Individualism, Low Power Distance, Low Uncertainty Avoidance and Rationality, the likelihood of benefiting from Economic Rent and Discretionary Powers decreases and the effective control instruments are implemented to hold agents accountable.

Interestingly, a glimpse at Table 4 reveals that the relationship between cultural dimensions and Corruption follows a systematic pattern. Indeed, most of the cultural dimensions in the right column are interrelated and characterize mainly the undeveloped and traditional societies (Gemeinschaft as described by Toennies (1963). Similarly, the cultural values in the left column are correlated and correspond to the developed and modern societies (Gesellschaft as described by Toennies, 1963). From Table 4 it is understood that the Northern cultures such as Finland, Sweden, and Canada marked by Individualism, Low Power Distance, Autonomy, Rationality-secularity, and Self-Expression are ranked among the cleanest countries of the world. In contrast, the traditional and the undeveloped Southern countries such as Nigeria, Bangladesh, and Ecuador which are marked by Collectivism, High Power Distance, Conservatism, and Traditional values are ranked as the most corrupt. Does this mean that corruption is primarily a problem of undeveloped, traditional, collectivistic, and Southern/Eastern countries? Indeed, the current article like other studies (e.g. Husted, 1999; Licht et al., 2007) has to validate this statement. Simply put, it seems that in addition to poverty, the traditional/Southern societies should deal with the rampant corrupt behavior of their government officials and business managers. One possible explanation is that the collectivistic and hierarchical cultural values are more effective for attaining basic human needs, but in a complex social setting they lose efficacy, become inadequate, and result in corrupt behavior. For instance, the traditional collectivistic and hierarchical cultural values may be suitable for a small tribal African community, but once complex institutions and social relations are created, they may become problematic by leading to nepotism, favoritism, abuse of power, and ultimately bribery and unaccountability. Another alternative explanation is that Corruption as conceptualized in the business literature and particularly, as measured by Transparency International (TI) hinges upon a purely Western perspective which seems less
relevant in other cultures. Indeed, much of what is perceived as ‘corruption’ is merely deviation of the Western bureaucratic administration and its rational-legal authority. It should be noted that there is a fundamental difference between the traditional/undeveloped and modern/developed societies with regard to the definition of morality and ethical behavior. While the modern/developed societies define moral compliance through objective and structured patterns, the traditional/undeveloped societies view morality in the maintenance of solidarity and seek it through subjective and unstructured actions (Husted, 2000). For that reason, favoritism and even bribery have dissimilar meanings and implications across cultures (Rose-Ackerman, 1999; Licht et al., 2007).

A very interesting and surprising finding of the empirical analysis is the disapproval of our hypothesis about the possible effects of Schwartz’s Mastery/Harmony dimensions. Indeed, the results indicate that contrary to the hypothesized relationship (H-7), Schwartz’s Mastery cultural value is associated with lower levels of corruption. In other words, values such as ambition, achievement, and material reward do not promote corruption. This finding seems to be different from the effects of Hofstede’s Masculinity/Femininity cultural values which are associated respectively with higher and lower levels of corruption (See Table 4). One possible explanation is that while Schwartz’s Mastery/Harmony has some overlap with Hofstede’s Masculinity/Femininity, the two value dimensions are essentially independent concepts and hinge upon different methodologies. Another alternative explanation is the lack of conceptual equivalency of these concepts and their dissimilar implications across cultures. For instance, a recent study reported that while most Westerners believe that the path to wealth follows from hard work, a large percentage of Eastern Europeans consider that high incomes reflect dishonesty (Kluegel et al. 1995).

Since Hofstede’s Individualism (1980; 2001), Schwartz’s Autonomy (1992; 1994) and Inglehart’s Self-Expression (1997) cultural values emphasize and prioritize the individual interests and desires, one would assume an inherent conflict between these values and ethical behavior. Indeed, many scholars have seen individualism as a threat to the organic unity between individuals and society which can lead to the disappearance of social solidarity and to the dominance of egoism, selfishness and distrust (Lukes, 1971; de Tocqueville, 1835/1945). Interestingly, this study refutes this argument and confirms that individualistic values such as Hofstede’s Individualism, Schwartz’s Autonomy and Inglehart’s Self-Expression are beneficial for ethical behavior. Similarly, Allik and Realo (2004) suggest that the individualistic cultural values may be perceived as necessary conditions for the development of interpersonal cooperation, mutual dependence, and social solidarity. Indeed, it has been shown that people in individualistic cultures enjoy the higher levels of mutual trust and interpersonal cooperation (Allik and Realo, 2004; Waterman, 1984; Hofstede, 2001; Inglehart 1997). By contrast, in collectivistic cultures, there is a strong distinction between in-group and out-group (Triandis, 1995; Inglehart 1997) and consequently, people may distrust strangers (Hofstede, 2001). As noted previously, the in-group trust and out-group distrust may provide the required conditions for nepotism, favoritism, injustice, and ultimately the corrupt behavior.

**Conclusion**

This study aimed at investigating the effects of cultural values on corruption by integrating three widely employed cultural frameworks. Building on a principal-agent perspective, we identified the three major components of corruption as Economic Rent, Discretionary Powers and Unaccountability (See Equation 1). Subsequently, we relied on some secondary data
from the Transparency International (2001-2010), Hofstede (1980; 2001), Schwartz (1992; 1994), World Value Survey (Inglehart et al., 2005) and the United Nations Reports (2001-2010) to analyze the effects of cultural values and socio-economic development on the corrupt behavior. The empirical analysis clearly showed that even after controlling for the effects of socio-economic development, cultural values have considerable impacts on the level of perceived corruption. As depicted in Table 4, the right-hand cultural values namely Hofstede’s High Power Distance, High Uncertainty Avoidance, Mastery, and Collectivism, Schwartz’s Conservatism and Inglehart’s Survival and Traditional-religious dimensions are positively associated with the Corruption variable. In contrast, the opposite cultural values are negatively associated with Corruption and tend to promote the ethical/legal business behavior. A very important finding of our analysis is that the relationship between cultural values and corruption follows a systematic pattern in which there is a marked division between the traditional/Southern/undeveloped and the modern/Northern/developed cultures. We offered some explanation for this apparent divide and furthermore, pointed out that the conceptualization and measurement of Transparency International principally reflect a Western outlook that might be less relevant in the traditional cultures. We relied on the principal-agent theory to shed light on the nature of corrupt behavior and its relationship with culture. We argued that corruption is essentially deriving gain from a power position requiring disrespect for the interests of others (Licht et al., 2007). As such the corrupt behavior is incompatible with those cultural values such as Individualism, Autonomy, Low Power Distance, Self-expression and Rationality which encourage the rule of law, the universal prosperity, and the democratic accountability.

This study contributes to the literature by integrating three widely employed cultural frameworks, by incorporating a large number of countries into the research design, by providing a profound understanding of the influence of culture on corruption, and particularly by offering a comprehensive model for scholars and practitioners. Indeed, by referring to Table 4, it is practical to describe a country’s culture, understand the implications, and make sense of the level of corruption. As such, Table 4 offers an integrative model of the cultural values that tend to promote/impede the corrupt behavior.

While culture has important implications for the corrupt behavior, its effects should not be considered as deterministic and unavoidable. In other words, Low Power Distance, Individualism, Autonomy, Self-Expression, and Secular-rational cultural dimensions may impede the corrupt behavior but their effects remain partial and probabilistic. What is more, both culture and corruption are hugely affected by the level socio-economic development. Thus, the probabilistic results of this study should not lead to deterministic conclusions about the impacts of cultural values on the corrupt behavior. Indeed, countries such as Japan, Hong Kong and Singapore can be considered as good examples that disprove a deterministic relationship between cultural values and corruption. Despite holding on the cultural values that are associated with corruption, Japan, Hong Kong and Singapore are ranked among the world cleanest countries. In addition, it should be noted that this study has a limited scope as it relies on narrow conceptualizations of culture and corruption. Finally, like many cross-cultural studies, the current analysis relies solely on the national level data and overlooks the effects of intra-national variations. While this study provides a comprehensive understanding of the effects of culture on the perceived corruption, the future studies may use other conceptualizations and measures of corruption to test the validity of our results. Furthermore, the future studies may look into the apparent divide between the developed and undeveloped societies and put forward theories explaining the observed differences.
Insert Table 4 Here

References

An Investigation into the Cultural Antecedents of Corruption


The remaining References, Tables, and Appendix are omitted due to space considerations. Interested readers are encouraged to contact the author for a complete copy of the paper.

Public Perception of Islamic Finance in Lebanon

Abstract

Islamic Finance is a relatively new branch of Finance that has gained global prominence in the last two decades, but it has so far failed to take prominence in Lebanon, a country that is famous for its vibrant and dynamic banking sector. The objectives of this research were to investigate if the Lebanese society was aware of the distinctive features of Islamic Finance, and to find out if they were willing to switch to Islamic banks or invest in Islamic financial products. A questionnaire was sent to a sample of 200 public respondents, and the answers were used to verify two hypotheses. The answers were compared between various groups of respondents based on gender, age, religion, managerial position, investment agents among other factors. Results showed that the public respondents understood the difference between Islamic and conventional finance and were willing to invest in Islamic-compliant products when made available to them. This was mainly due to being Shariah-compliant and because of their lower risk potential. However they had doubts about banks’ credibility and were concerned about the lower returns that they may get.

Introduction

Modern Islamic Finance is a fairly new science of financial management that began to emerge in the early 1960’s when Egypt and Malaysia attempted to offer Shariah-compliant models of banking as substitute for conventional banking practices. Demand for Islamic financial products continued in the 1980’s leading to a steady growth in the 1990’s.

Islamic Finance refers to a broad range of activities and financial instruments that are in line with Islamic principles and laws (Shariah). In particular, the relevant Islamic principles are extracted from the Islamic holy book (the Quran), the practices taught by the Prophet Mohammad (the Sunnah) and two secondary sources: the consensus of Islamic scholars (Ijma) and their personal interpretation (Ijtihad). These principles stipulate that money or capital is to be used for the good of the society (economic justice) and the overall economy, and that transactions must occur without the payment or receipt of interest or usury (Riba). Transactions must also be free of Maisir (speculation or gambling) and Gharar (complete uncertainty). Accordingly, investors are forbidden from participating in interest-earning investments, and must attain their returns through profit-loss sharing investments that entail risk-sharing. This means that when two parties partner together for a business venture, both parties should share the potential profit/loss that ensues, and more importantly they should share risk.

The prohibitions are strict and agreed upon by the four Islamic juristic schools i.e. Hanafi, Maliki, Shafi and Hanbali. Given the prohibitions mentioned in the previous section, a whole set of structures that are asset-backed were devised to meet the requirements of Islamic banks and their clients. The common techniques used by Islamic banks are Murabaha, Musharaka,
Islamic Finance was initially present in Muslim countries in Eastern Asia and the Middle East, specifically the Arab Gulf region; however it has later expanded to countries with significant Muslim populations. These countries are currently working on reforming their tax, legal and regulatory frameworks to accommodate Islamic banks and attract Islamic investments.

Commercial banks in Islamic countries competed for excess funds, which caught the attention of several international banks (e.g. HSBC, Citigroup, Deutsche Bank, Standard Chartered Bank among others) which started offering Islamic products to grab a larger share of the rapidly growing market. Today it is estimated that there are more than 600 financial institutions that are fully Islamic or operate through Islamic windows distributed in 75 countries (Aziz, 2012).

Islamic Finance took a more prominent position during the latest global financial crisis as Islamic products showed less volatility than conventional products due to its avoidance of uncertainty and speculation, and therefore proved to be more secure to global investors.

The increase in demand for Islamic products was not matched by increased developments in the regulations governing the operations of these products. Islamic Finance laws and regulations somehow vary from one country to another depending on the interpretations of Shariah scholars of that specific country.

Lebanon is a country that is famous for its vibrant and dynamic banking sector and which is considered to be a financial hub in the region. It has an advanced and sophisticated financial system that is well regulated. However, Islamic Finance has so far failed to take prominence in the country for a multitude of reasons. This paper is designed to shed more light on this issue.

**Objectives of the Study**

Given the success that Islamic products has gained in many countries and the promising potential for such products in Lebanon, this paper aims to help understand the public perception of Islamic Finance in general, and to find whether the Lebanese community is sufficiently aware and ready to invest in Islamic Finance products. The results are likely to help bankers and policy makers venture into this insufficiently tapped market opportunity. Specifically the objectives are:

To investigate if the Lebanese society is aware of the distinctive features of Islamic Finance and its difference with conventional finance.

To explore the possibility of the community accepting Islamic Finance and their willingness to switch to Islamic banking or invest in Islamic products.

**Literature Review**

There were many attempts to understand the customers’ perspectives toward Islamic Finance and products, and whether it could be successfully introduced in some countries with varying results. Zeitouni and Bassam (2010) surveyed North American Muslims for the potential market demand for Islamic Finance in USA. Al-Tamimi et al. (2009) contrasted Islamic and
conventional banks’ images from customers’ point of view in the UAE, and aimed to find if a bank image affected customer loyalty or the selection of a bank. Warsame (2009) assessed the suitability of the Shariah-compliant products on offer to the financial services needs of the less affluent UK Muslim communities. Islam (2012) conducted a survey regarding customers’ attitudes toward Islamic banking in Bangladesh.

The banking sector in Lebanon is considered to be one of the most profitable, highly liquid and well capitalized in the region (Mahmoud, 2009). The number of banks in Lebanon totaled 71 in 2012 (The Association of Banks in Lebanon, 2012) of which only 4 are considered to be fully Islamic. These are Al Baraka Bank S.A.L., Arab Finance House S.A.L., Lebanese Islamic Bank S.A.L., and Al-Bilad Islamic Bank for Investment & Finance P.S.C. There is another bank that operates through an Islamic window (e.g. BLOM Development Bank S.A.L.).

The Daily Star (2011)lxiv noted that Islamic banking in Lebanon did not flourish although it had been present in the country for more than eight years, and that experts estimated the total assets of Islamic banks in Lebanon to be less than 2 percent of the total bank assets. The article added that the Lebanese market may not be too receptive to several financial products issuance by the Islamic banks.

El Gemayel (2012) in his article in Islamic Finance Newslxv pointed that under the current legal framework, Islamic banks were facing many challenges which reduced their competitiveness. Most importantly they were subject to double taxation, double registration fees and added stamp duties throughout their financing operations, which created a financial burden and increased cost extensively. Islamic banks were also classified as investment banks, and thus were subject to a minimum deposit maturity of six months. However, they were not entitled to the exemption from reserve requirements in Lebanese pounds as investment banks were.

Islamic Finance in Lebanon was mentioned in other papers, examples include “Islamic Banking in Lebanon” by Rishani (2004) and Mansour (2009). Rishani (2004) realized that Islamic banking faced several challenges in Lebanon, but with the aid of the Central Bank and the government its introduction to the financial system was feasible. Mansour (2009) believed Islamic finance in Lebanon had a long way to go before it can compete with conventional banking due to the ambiguous operating mode, weak image and marketing, and insufficient number of branches. Chammas (2006) discussed the enhancements and projections of Islamic Finance in Lebanon in his paper, he came to the outcome that the implementation of some strategic steps would increase the volume of Islamic operations in the country; these steps are (i) amendment of the regulatory framework; (ii) development of an Islamic financial hub in Beirut; (iii) exploration of untapped market segments; and (iv) designing a marketing and a communication strategy that would address the Lebanese society as a whole and not only a certain category of people.

Hamed (2007) discussed how Islamic Finance could benefit the Lebanese economy; she discussed the country’s status in term of debts and came up with a calculated conclusion that Sukuk were beneficial to Lebanon as they were an ideal tool for mobilization of fresh funds from international market into the country.

While on a global level, there were several surveys related to Islamic banking and Islamic Finance in general, there was a need for more product-specific studies to be carried out as this
type of finance has many innovative products, and some of which might work better for a
certain society than others.

Research Methodology

A questionnaire was distributed to a public sample to find out about their general perception
of Islamic Finance. The questionnaire consisted of two sections. The first section dealt with
the respondents’ profile excluding their names and contact details to maintain privacy, and
the second section covered the respondents’ attitude toward Islamic finance practices and
products in general. The questionnaire was developed from scratch as the literature reviewed
did not show any related questionnaires that could be used to satisfy the objectives of this
research. However to ensure the relevance of the questionnaire, it was pilot-tested with a
banking expert to ensure the clarity of questions and their relevance. The pre-testing helped
adjust the wording and format of some questions. Two versions of the questionnaire were
developed, one in Arabic and the other in English to ensure a wider response rate.

The public questionnaire was distributed to a random sample of 200 responders in the greater
Beirut area during the month of March 2013. When distributing the questionnaire to the
public sample, they received a brief introduction of its purpose and the distributor expressed
readiness to answer any related questions.

Many variables were used in the research. This included independent variables such as age,
job position, gender, presence of a banking account, religion, expertise in investment and
awareness of local and international financial news, which were used as part of the profile
questions. The dependent variables included attitude toward Islamic finance in general as
manifested in the various questions. The variables are explained in the following paragraphs.

Attitude toward Islamic Finance in general: It is assumed here that people who are devout
Muslims or have a good background in Finance in general and in Islamic Finance in
particular, and who can appreciate the difference between conventional and Islamic finance
products are likely to invest in Shariah-compliant products when made available by their
banking institutions.

Gender: A demographic variable that refers to either male or female. This variable is treated
as a nominal variable where male respondents were coded (1) and female respondents were
coded (0). Studies have shown that there was some difference toward risk between men and
women.

Age: This is a personal demographic variable that refers to the respondent’s age category.
People of different age groups tend to have different investment behavior or patterns, with the
older group being more risk averse. The responses were initially coded serially (i.e. 1, 2, 3, 4)
but were later combined in two groups for 40 years or below and for over 40 years.

Job Position: This variable refers to the respondent’s current employment position. This is
likely to reflect his income, level of education and experience levels. The responses were
initially coded serially (i.e. 1, 2, 3, 4, 5) but were later combined in two groups for
managerial and non-managerial positions (and self employed). Responses from unemployed
persons were not used.
Presence of a Banking Account: This variable reflects familiarity with banking transactions and possibly banking products and financing options. It also reflects the possibility of having some savings which can be invested when needed. This variable was treated as a nominal variable where bank account owners were coded (1) and non-account holders were coded (0).

Religion: This variable reflects religious denomination to show whether it has any effect on the choice between conventional and Islamic products. This variable was treated as a nominal variable where Muslims were coded (1) and non Muslims were coded (0).

Investment Agent: This variable reflects familiarity with investment techniques which is likely to affect the respondent’s choice of investment products. The responses were initially coded serially (i.e. 1, 2, 3, 4), but were later combined in two groups for a professional investment agent or otherwise.

Awareness to Local and International Financial News: This variable assumes that people who usually follow financial news are likely to be more interested in Islamic Finance products. This variable is treated as a nominal variable where respondents with awareness are coded (1) and non aware respondents are coded (0).

The research had two main hypotheses. The first hypothesis dealt with the consumers’ perception of Islamic Finance in general. The increase of Islamic banks in Lebanon in the last decade along with the spread of Islamic products in conventional banks, have raised awareness of the benefits of Shariah-compliant products especially as they appeared to be less risky to consumers as proven in the last global financial crisis. In a country like Lebanon, which has an active banking sector with extensive links to global investment houses, it is likely that investors and bankers have understood such opportunities especially with a fairly well educated community of consumers with a long history in commerce and global business transactions among various religious groups in the country. Therefore the first hypothesis is stated in a null format as follows:

Hypothesis 01: The Lebanese community finds no difference (based on the cutoff point of 3.5) between conventional and Islamic Finance transactions.

This hypothesis was tested to see if there were any statistically significant differences between the replies of the two genders, age groups, bank account owners, education levels, investment agent and knowledge of financial news etc. Therefore this resulted in seven sub components of the hypothesis.

The second hypothesis dealt with the consumers’ inclination to adopt or switch to Islamic products/services. It is assumed that given a fair knowledge of/ or education about Islamic Finance and its benefits, customers are likely to switch from conventional products / services. Therefore the second hypothesis is stated in a null format as follows:

Hypothesis 02: The Lebanese community would not opt for Islamic-compliant products when available (based on the cutoff point of 3.5).

This hypothesis was tested to see if there was any statistically significant difference between the replies of the two genders, age groups, bank account owners, education levels, investment agent etc. This resulted in seven sub components of the hypothesis.
Data Analysis and Findings

The public survey was distributed to a sample of 200 people to assess their attitude toward Islamic finance in general. A total of 161 questionnaires were collected, which represents a response rate of 80.5%. 16 questionnaires were excluded as they came from respondents who were unemployed on the assumption that they are likely to be less active in banking and investment operations. Screening of the data showed missing values for seven records and this was substituted with the respective mean values. A summary of the profile of respondents is shown in Table 1.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Groups</th>
<th>Frequency</th>
<th>In Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age Group</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>21-40 years</td>
<td>83</td>
<td>57.24%</td>
</tr>
<tr>
<td></td>
<td>Over 40 years</td>
<td>62</td>
<td>42.76%</td>
</tr>
<tr>
<td><strong>Gender</strong></td>
<td>Male</td>
<td>87</td>
<td>60%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>58</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Religion</strong></td>
<td>Muslim</td>
<td>127</td>
<td>87.59%</td>
</tr>
<tr>
<td></td>
<td>Non Muslim</td>
<td>18</td>
<td>12.41%</td>
</tr>
<tr>
<td><strong>Job Position</strong></td>
<td>Managerial Level</td>
<td>38</td>
<td>26.21%</td>
</tr>
<tr>
<td></td>
<td>Non-managerial staff or Self Employed</td>
<td>107</td>
<td>73.79%</td>
</tr>
<tr>
<td><strong>Bank Account Owner</strong></td>
<td>Yes</td>
<td>126</td>
<td>86.90%</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>19</td>
<td>13.10%</td>
</tr>
<tr>
<td><strong>Management of Investments</strong></td>
<td>By a Professional</td>
<td>9</td>
<td>6.20%</td>
</tr>
<tr>
<td></td>
<td>Self Management or No Investment</td>
<td>136</td>
<td>93.79%</td>
</tr>
<tr>
<td><strong>Follows Local or International Financial News</strong></td>
<td>Yes</td>
<td>86</td>
<td>59.31%</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>59</td>
<td>40.69%</td>
</tr>
</tbody>
</table>

Table 1: Descriptive Statistics of the Respondents in the Public Survey (n= 145)

Table 1 shows that the sample of respondents was mostly males (60%), belonging mostly to an age group below 40 years old (57.24%) and of whom 87.59% were Muslims. Of the respondents 73.39% were in non-managerial positions or were self employed, and 86.90% had a bank account and only 6.20% relied on a professional to manage their investments. 59.31% reported that they followed local or international financial news.

The Statistical Package for the Social Sciences (SPSS) was used to analyze the collected data. Missing data from unanswered questions were replaced with the respective data mean. The data collected was checked for reliability using Cronbach Alpha Coefficient, which was found to be 0.748 for the public survey. This meets the minimum acceptable level of 0.70 according to Nunnally (1978), and indicates that the measures used for the hypotheses were reliable.

A summary of the results of the public questionnaire is shown in Table 2. On average, the respondents noted that they were religiously committed (4.01 out of 5) with a neutral position on their knowledge of Islamic Finance (3.02 out of 5) and on the difference between Islamic bank transactions and conventional bank transactions (3.30 out of 5). A large number of respondents expressed interest to know more about Islamic products and services (3.92 out of 5) and were willing to deal with full fledged Islamic banks (3.44 out of 5) or with conventional banks operating through Islamic windows (3.31 out of 5), or would choose...
Shariah-compliant products if their banks gave them an option (3.69 out of 5). Additionally, the respondents noted that Sukuk (the Islamic equivalent to conventional bonds) could also appeal to non-Muslims if risks were comparable (3.35 out of 5) despite believing that conventional investment methods were more profitable than Islamic products (3.38 out of 5). This notion was confirmed by Jobst et al. (2008). Islamic investment methods were found to be somewhat safer to invest in (3.35 out of 5) and respondents were somewhat willing to transfer to Islamic accounts if their banks offered them the option (3.36 out of 5) perhaps pushed away by a stricter lending criteria of conventional banks (3.30 out of 5).

The above results are somewhat unexpected. The presence of Islamic banks in Lebanon is fairly recent and their activities are little advertised, yet the (surveyed) public seems to have the curiosity and inclination toward Islamic financial products. So far this is hindered by the shortage of Islamic financial institutions and services in the Lebanese market, and the somehow debatable practices by some Islamic institutions which are perceived as replicas of conventional banks services under an Islamic front. While people are usually hesitant to change their banking institutions given the trust they build over time, the surveyed respondents showed a clear interest in knowing more about Islamic banks, and expressed an intention to switch if they could be assured of safety and similarity of returns. A summary of the findings is shown in Table.2.

<table>
<thead>
<tr>
<th>No.</th>
<th>Question</th>
<th>Strongly Disagree (1)</th>
<th>Disagree (2)</th>
<th>Neutral (3)</th>
<th>Agree (4)</th>
<th>Strongly Agree (5)</th>
<th>Weighted Mean Answer (Out of 5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>I regard myself as a religiously committed person</td>
<td>1</td>
<td>2</td>
<td>23</td>
<td>87</td>
<td>32</td>
<td>4.01</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.69%</td>
<td>1.38%</td>
<td>15.86%</td>
<td>60.00%</td>
<td>22.07%</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>When it comes to Islamic Finance, I regard myself as well informed</td>
<td>12</td>
<td>20</td>
<td>67</td>
<td>43</td>
<td>2</td>
<td>3.02</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8.28%</td>
<td>13.79%</td>
<td>46.21%</td>
<td>29.66%</td>
<td>1.38%</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>I think Islamic bank transactions is different from conventional banks transactions</td>
<td>6</td>
<td>16</td>
<td>60</td>
<td>53</td>
<td>9</td>
<td>3.30</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.14%</td>
<td>11.03%</td>
<td>41.38%</td>
<td>36.55%</td>
<td>6.21%</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>I am interested in knowing more about Islamic products and services</td>
<td>4</td>
<td>6</td>
<td>22</td>
<td>79</td>
<td>34</td>
<td>3.92</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.76%</td>
<td>4.14%</td>
<td>15.17%</td>
<td>54.48%</td>
<td>23.45%</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>I am willing to deal with full fledged Islamic banks</td>
<td>7</td>
<td>12</td>
<td>53</td>
<td>53</td>
<td>18</td>
<td>3.44</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.83%</td>
<td>8.28%</td>
<td>36.55%</td>
<td>36.55%</td>
<td>12.41%</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>I am willing to deal with conventional banks operating through Islamic windows</td>
<td>8</td>
<td>17</td>
<td>51</td>
<td>60</td>
<td>9</td>
<td>3.31</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5.52%</td>
<td>11.72%</td>
<td>35.17%</td>
<td>41.38%</td>
<td>6.21%</td>
<td></td>
</tr>
<tr>
<td>No.</td>
<td>Question</td>
<td>Strongly Disagree (1)</td>
<td>Disagree (2)</td>
<td>Neutral (3)</td>
<td>Agree (4)</td>
<td>Strongly Agree (5)</td>
<td>Weighted Mean Answer (Out of 5)</td>
</tr>
<tr>
<td>-----</td>
<td>--------------------------------------------------------------------------</td>
<td>-----------------------</td>
<td>--------------</td>
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<td>-----------</td>
<td>--------------------</td>
<td>--------------------------------</td>
</tr>
<tr>
<td>7</td>
<td>Given the option by my bank, I would choose Shariah compliant products and services</td>
<td>5</td>
<td>9</td>
<td>34</td>
<td>74</td>
<td>22</td>
<td>3.69</td>
</tr>
<tr>
<td>8</td>
<td>I think Sukuk could also appeal to non-Muslims in Lebanon as long as the quality and risks are comparable to the conventional alternatives</td>
<td>1</td>
<td>20</td>
<td>62</td>
<td>49</td>
<td>12</td>
<td>3.35</td>
</tr>
<tr>
<td>9</td>
<td>I think conventional investment methods have higher returns when compared to Islamic investments methods</td>
<td>4</td>
<td>16</td>
<td>58</td>
<td>51</td>
<td>14</td>
<td>3.38</td>
</tr>
<tr>
<td>10</td>
<td>I think Islamic investments methods are safer to invest in when compared to conventional investment methods</td>
<td>5</td>
<td>20</td>
<td>53</td>
<td>50</td>
<td>15</td>
<td>3.35</td>
</tr>
<tr>
<td>11</td>
<td>I am willing to transfer my accounts to Islamic accounts if provided by my bank</td>
<td>9</td>
<td>20</td>
<td>45</td>
<td>52</td>
<td>19</td>
<td>3.36</td>
</tr>
<tr>
<td>12</td>
<td>I think strict lending criteria of conventional banks will eventually push people to Islamic products/services/solutions</td>
<td>8</td>
<td>18</td>
<td>59</td>
<td>43</td>
<td>17</td>
<td>3.30</td>
</tr>
</tbody>
</table>

Table 2: Summary of the Results of the Public’s Attitude toward Islamic Finance

Overall, the results showed that the surveyed sample of respondents did distinguish between conventional and Islamic Finance or products, and believed that there were some advantages for the Islamic products over the conventional.

**Results of the Hypotheses Testing**

This research examined two hypotheses related to the public’s attitude toward Islamic Finance in general. The first hypothesis dealt with the consumers’ perception of Islamic Finance in general. This was stated in null format as follows:
Hypothesis 01: The Lebanese community finds no difference (based on the cutoff point of 3.5) between conventional and Islamic Finance.

The Statistical Package for the Social Sciences (SPSS) was used to analyze the collected data, in particular questions 1, 2, 3 and 4 of the public’s survey. The results of the two-tailed t-test for a single sample at 95% confidence interval are shown in Table 3.

<table>
<thead>
<tr>
<th>Null (Ho) vs. Alternate Hypothesis(Ha)</th>
<th>Brief Explanation</th>
<th>P-Value</th>
<th>t-Value</th>
<th>Sub-components</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can not reject Ho</td>
<td></td>
<td></td>
<td></td>
<td>Hypothesis 01a: Age Group 0.056 -1.932</td>
</tr>
<tr>
<td>Can not reject Ho</td>
<td></td>
<td>0.123</td>
<td>1.552</td>
<td>Hypothesis 01b: Management position vs. non-management or self employed</td>
</tr>
<tr>
<td>Reject Ho</td>
<td></td>
<td>0.005</td>
<td>2.879</td>
<td>Hypothesis 01c: Gender</td>
</tr>
<tr>
<td>Can not reject Ho</td>
<td></td>
<td>0.088</td>
<td>-1.716</td>
<td>Hypothesis 01d: Religion 0.088 -1.716</td>
</tr>
<tr>
<td>Can not reject Ho</td>
<td></td>
<td>0.479</td>
<td>0.709</td>
<td>Hypothesis 01e: Having a Bank Account 0.479 0.709</td>
</tr>
<tr>
<td>Can not reject Ho</td>
<td></td>
<td>0.190</td>
<td>1.318</td>
<td>Hypothesis 01f: Investment Agent 0.190 1.318</td>
</tr>
<tr>
<td>Can not reject Ho</td>
<td></td>
<td>0.079</td>
<td>-1.772</td>
<td>Hypothesis 01g: awareness of 0.079 -1.772</td>
</tr>
</tbody>
</table>

According to the P-value (0.00), the t-calculated falls into the critical region, therefore the claim that there was no difference between conventional and Islamic Finance (Ho) is rejected. In other words, the difference was statistically significant among the respondents at the mentioned levels. Looking at the hypothesis subcomponents the results are reported in Table 4.
The above Table shows that there were no statistically significant differences between the means of the various groups for hypothesis 1 except in gender. This confirms that there was some difference toward risk between men and women.

The second hypothesis dealt with the consumers’ inclination to adopt or switch to Islamic products / services. This was stated in null format as follows:

\textbf{Hypothesis 02: The Lebanese community would not opt for Islamic-compliant products when available (based on the cutoff point of 3.5).}

The answer to this hypothesis was deducted from questions 5 through 12 of the survey. The results of the two-tailed t-test for a single sample at 95% confidence interval are shown in Table 5.

<table>
<thead>
<tr>
<th>Hypothesis 2</th>
<th>t-value</th>
<th>d.f.</th>
<th>P Sig. (2-tailed)</th>
<th>Mean</th>
<th>Mean Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothesis 2</td>
<td>-4.343</td>
<td>144</td>
<td>0.00</td>
<td>3.3047</td>
<td>-0.1953</td>
</tr>
</tbody>
</table>

Table 5: T-Test for Hypothesis 2

According to the P-value (0.00), the t-calculated falls into the critical region, therefore the claim that the Lebanese community would not opt for Islamic-compliant products when available (Ho) is rejected. Therefore the respondents would opt for Islamic-compliant products when available at the mentioned levels. Looking at the hypothesis subcomponents the results are reported in Table 6.

<table>
<thead>
<tr>
<th>Hypothesis 2 Sub component</th>
<th>P-Value</th>
<th>t-Value *</th>
<th>Null vs. Alternate Hypothesis</th>
<th>Brief Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothesis (_{02a}): Age Difference</td>
<td>0.382</td>
<td>-0.877</td>
<td>Can not reject Ho</td>
<td>No difference in the results between the two groups</td>
</tr>
<tr>
<td>Hypothesis (_{02b}): Management position vs. non-management or self employed</td>
<td>0.026</td>
<td>2.245</td>
<td>Reject Ho</td>
<td>There is a difference in the means between the two groups</td>
</tr>
<tr>
<td>Hypothesis (_{02c}): Gender</td>
<td>0.057</td>
<td>1.917</td>
<td>Can not reject Ho</td>
<td>No difference in the results between the two groups</td>
</tr>
<tr>
<td>Hypothesis (_{02d}): Religion</td>
<td>0.036</td>
<td>-2.120</td>
<td>Reject Ho</td>
<td>There is a difference in the means between the two groups</td>
</tr>
<tr>
<td>Hypothesis (_{02e}): Having a Bank Account</td>
<td>0.102</td>
<td>1.646</td>
<td>Can not reject Ho</td>
<td>No difference in the results between the two groups</td>
</tr>
<tr>
<td>Hypothesis (_{02f}): Investment Agent</td>
<td>0.921</td>
<td>-0.1</td>
<td>Can not reject Ho</td>
<td>No difference in the results between the two groups</td>
</tr>
<tr>
<td>Hypothesis</td>
<td>awareness of financial news</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>------------</td>
<td>----------------------------</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>0.644</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-0.463</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Can not reject Ho</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No difference in the results between the two groups</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*: Levene’s test for the equality of variance was tested

Table 6: T-tests for the subcomponents of Hypothesis 2

The above table shows that there were no statistically significant differences between the means of the various groups for hypothesis 2 except for management position and religion. These are expected given that the respondents with a managerial position are likely to produce more rational financial decisions given their higher financial responsibility than those who are at a lower job position. Additionally, non-Muslim respondents seem to be more reluctant to invest in Islamic products probably because of less awareness rather than religious issues, noting that in Finance, profits and risk are usually the major drivers for the investment decision.

In Summary, the public survey helped understand the public’s attitude toward Islamic finance in general. The two related hypotheses showed that the respondents did distinguish between Islamic and conventional finance and were willing to opt for Islamic-compliant products when available. This was somewhat a surprising conclusion given the relatively recent presence of Islamic banks and products in the Lebanese market. Nevertheless, this means that banks could benefit from such an opportunity if they can establish sufficient credibility to customers and when coupled with sufficient local regulations.

Summary & Conclusions

This research attempted to understand the public’s opinion about Islamic finance in general. Two hypotheses were tested. Results showed that the public respondents understood the difference between Islamic and conventional finance and were willing to invest in Islamic-compliant products when made available to them. This was mainly due to being Shariah-compliant and because of their lower risk potential. However the public respondents had doubts about banks’ credibility and were concerned about the lower returns that they may get.

Islamic products have been gaining rapid interest in the region, boosted by increased liquidity and increased awareness by Muslim investors to Shariah-compliant products and services. Additionally the recent global financial crisis had shed more light on Islamic products which are often perceived to be of lower risk or less susceptible to the fluctuations faced by conventional financial products.

Lebanon, being a regional financial player, is poised to benefit from such an opportunity to boost its vibrant banking sector by tapping into this growing market. This research showed that the Lebanese public were aware of the difference between conventional and Islamic Finance and were willing to invest in Islamic Products if made available and once certain issues were resolved.

Several recommendations can be made:
Banks must embark on an educational promotional campaign to increase customers’ awareness to Islamic products.
The Association of Banks in Lebanon, in cooperation with the Central Bank and the Islamic authority (i.e. Dar Al Fatwa) must establish an independent authority at the national level that could authenticate that a certain product is Shariah-compliant, which would assure customers of the credibility of their investments. Alternatively, they could agree on a group of international bodies that could stamp their approval on such issues.

The Central Bank must amend its current policies and regulations to accommodate Islamic banks or products or produce a separate and comprehensive set of regulations to govern this issue. There is a need for more trained / skilled experts in the field of Islamic Finance in general. Banks should train their staff in these areas.

This research could open the door for additional studies in this area, namely: 1) To verify the results using a larger sample size from the various segments of the Lebanese community; 2) To look into optimal methods to build public and investor’s trust in Islamic Finance; 3) To identify the potential benefits to the country from the introduction of Islamic-compliant products.

References

EXPLORING ISLAMIC MARKET ORIENTATION – A QUALITATIVE APPROACH

Abstract

The purpose of the study is to explore the nature market orientation that exists in the Islamic financial institutions. Considering the explorative nature, the study uses qualitative research approach, collecting data in words using in-depth interview technique, drawing sample from Islamic financial institutions of both Bangladesh and United Arab Emirates (UAE). Data were coded and categorized using inductive reasoning method and similar responses were identified from a prepared data matrix. The results were presented in a narrative way using simple frequency for the agreements and disagreements of respondents considering “street language” without being mediating the meaning of the responses. A different nature of market orientation called Islamic market orientation has been identified by the results of the study. The study identifies five elements (orientation on Islamic customer, orientation on information, orientation on integration, orientation on competition, and finally orientation on responsiveness) that embody the formation of Islamic market orientation. To the best of the knowledge of the Authors of this study, the results offer a different kind of market orientation which can be considered as completely original and unique.

Keywords Islamic market orientation, Islamic financial institutions, Islamic banks, Bangladesh, and United Arab Emirates (UAE)

INTRODUCTION

In the last few decades there has been a realization that business undertakings should be customer oriented and that marketing is should be a view or philosophy of business as a whole. This philosophy is known as marketing concept that suggests a company to focus all of its effort on satisfying its customer at a profit to itself. The issue of market orientation has generated considerable interest and synergy in the academic and business circles considering the critical role that market orientation can play in business success. Jaworski and Kohli (1993) found market orientation to be the key to business success. Webster (1994) went further by proposing market orientation as the survival element of the competitive business world. Webster (1994) also noted that, for the sake of survival in the increasingly competitive markets in the future, every business needs to be customer-focused, market driven, global oriented, and flexible to be able to deliver superior value to customers. Customer preferences and expectations are changing rapidly with the increasing exposure to new product offerings and communicating the new offerings to customers. As a consequence, market orientation has emerged as a vital element in current market practices as well as in contemporary marketing literature and in marketing thoughts and theories (Svensson, 2001). The above research findings tend to suggest an increasing recognition of the growing importance of customer orientation of modern businesses. Therefore, marketers should pay adequate
attention to the customer needs and wants. This will help maintain a successful business relationship aimed at gaining superior financial performance in a rapidly changing competitive posture in domestic as well as in international markets.

In spite of the fact that market orientation has been identified to be a universal element of business success, the application of this has been viewed differently considering the cultural and market variability. Thus, different market orientation theories have been developed and tested to date in different parts of the world (Shapiro, 1988; Kohli and Jaworski, 1990; Narver and Slater, 1990; Ruekert, 1992; Deshpande et al. 1993).

As can be followed the trend of the business world, a new addition known to be Islamic Banking have been emerged in the financial service sector during the last few decades that generated a considerable amount of attention and interest by the entrepreneurs and so the Muslim customers. Dubai Islamic Bank is considered to be the world’s first full-fledged Islamic bank which was established in 1975. In the same year, Islamic Development Bank (IDB) was established as a follow-up of decision of the Conference of Finance Ministers of Muslim Countries. According to Dubai Islamic bank (2013) there are 280 Islamic banks in operation in 48 different countries, with a total deposit of US$400 billion. These Islamic financial institutions proved to be more profit making compared to the regular financial institution. To this end, it can be noted that Islam Bank Bangladesh Limited (IBBL) has been ranked as the number one commercial bank in Bangladesh whose deposit reached to USD $4.2 billion (IBBL 2010). In addition, the current total assets of Dubai Islamic bank counted at AED 93.7 billion and the total customer deposit reached to AED 66.9 billion (Dubai Islamic Bank, 2012). Seeing the success of the Islamic financial institutions, today, many regular financial institutions adopted a separate Islamic wing in order to attract the Muslim customers. According to Dubai Islamic bank (2013) this number has reached to at least 300 that opened either branches or wings to provide Islamic financial services. Now the question is; what do these Islamic financial institutions do that gives them an edge over the regular financial institution? Do they have a different nature of market orientation that gives them a competitive advantage? If yes, what embodies this market orientation? This requires an investigation. Thus, this paper aims at exploring the nature of Islamic market orientation.

**LITERATURE REVIEW**

Although market orientation and marketing orientation are seen by some researchers as being synonymous, with no distinction made between the two (Payne, 1988; Golden et al., 1995), market orientation is really an expanded form of marketing orientation (Shapiro, 1988; Kohli and Jaworski, 1990). The reasons for this expansion/broadening are threefold: (i) market orientation is not simply a concern of the marketing department, but should be organisation-wide, (ii) the level of market orientation can avoid overemphasis on the marketing department within an organisation, and can facilitate coordination and responsibility sharing between the marketing department and the other departments, (iii) market orientation means focusing attention on the market instead of just on specific customers (Kohli and Jaworski, 1990).

Slater (2001) supported Kohli and Jaworski’s (1990) distinction. According to Slater (2001), a market orientation is not a marketing orientation, and a business is market-oriented only when the entire organisation embraces the values implicit therein and when all business processes are directed at creating superior customer value. This can be augmented by the third component of o the Narver and Slater’s (1990) market orientation construct that
interfunctional coordination typically involves more than the marketing department in creating superior value for the buyers. Therefore in this paper the term ‘market orientation’ rather than ‘marketing orientation’ is used.

Five different market orientation perspectives have been advanced in the literature that visualised market orientation as the implementation of marketing concept. These are: decision-making perspective, market intelligence perspective, culturally based behavioural perspective, strategic perspective, and the customer orientation perspective (Shapiro, 1988; Kohli and Jaworski, 1990; Narver and Slater, 1990; Ruekert, 1992; Deshpande et al., 1993). In order to provide an understanding of market orientation, an introduction to each perspective is outlined below.

**The Decision-Making Perspective**

One of the market orientation perspectives identified in the literature is the decision-making perspective proposed by Shapiro (1988). He conceptualised market orientation as an organisational decision-making process and specified three characteristics that make a company market driven: (1) information on all important buying influences permeates every corporate function, (2) strategic and tactical decisions are made interfunctionally and interdivisionally, and (3) divisions and functions make well-coordinated decisions and execute them with a sense of commitment.

**The Market Intelligence Perspective**

Kohli and Jaworski (1990) proposed this perspective of market orientation and it has been well accepted among marketing scholars (Jaworski and Kohli, 1993; Raju et al., 1995; Selnes et al., 1996; Caruana et al., 1998; Pulendran et al., 2000). This perspective visualised market orientation as the implementation of marketing concept from the practitioner’s point of view. This study concluded that a market-oriented organisation is one in which the three pillars of the marketing concept (customer focus, coordinated marketing, and profitability) are operationally manifest. This market orientation perspective posits that a market orientation entails: (1) one or more departments engaging in activities geared toward developing an understanding of customers’ current and future needs and the factors affecting them, (2) sharing of this understanding across departments and, (3) various departments engaging in activities designed to meet selected customer needs. They defined market orientation as the organisation-wide generation of market intelligence pertaining to customers’ current and future needs, dissemination of the intelligence across departments, and organisation-wide responsiveness to it.

**The Culturally Based Behavioural Perspective**

Narver and Slater (1990) proposed a conceptualisation of market orientation that considered profitability as a long-term objective of a firm. According to Narver and Slater (1990) market orientation consists of three behavioural elements: (1) customer orientation, (2) competitor orientation, and (3) interfunctional coordination. They defined market orientation as the organisational culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus, superior performance of the business continues.

**The Strategic Perspective**

Ruekert (1992) proposed the strategic perspective of market orientation. According to him, the level of market orientation in a business unit is the degree to which the business unit
obtains and uses information from customers, develops a strategy considering customer needs, and implements that strategy by being responsive to customer needs and wants.

The Customer Orientation Perspective
Deshpande et al. (1993) proposed a divergent view of market orientation suggesting that it is synonymous with customer orientation. According to them, customer orientation is the set of beliefs that puts the customers’ interest first, while not excluding those of all other stakeholders such as owners, managers, and employees, in developing a long-term profitable enterprise.

Following the works of these researchers a new era of market orientation was identified called the era of establishment and replication (early 1990s to date). The relationships of market orientation with its antecedents and consequences were established and interest in replicating the different market orientation perspectives has grown tremendously during this period (Deng and Dart, 1994; Soderlund, 1998; Dawes, 2000; Gounaris and Avlonitis, 2001; Kirca et al., 2005; Qu, 2009; Zebal, 2011; 2012).

Despite the significant contribution seen on marketing concept and market orientation in the chronological literature, nothing seems to be done that identifies the state of Islamic market orientation. Thus, to this effect, this paper contributes by exploring the nature of Islamic market orientation in the Islamic financial institution.

RESEARCH METHOD
Considering the exploratory nature of this study, it was decided to use qualitative research method that facilitates collecting information in words. Islamic banks operating in Bangladesh and United Arab Emirates (UAE) were considered as the population of this study. Bangladesh was selected considering the fact that it is the second largest Muslim country in the world and UAE was selected due to the fact that it was the originator of the world’s full-fledged Islamic bank. There are eleven local and foreign own, profit oriented and Shari’ah based Islamic banks operate in Bangladesh compared to five main in the UAE. Initially, all of them in both countries were targeted to interview but finally fourteen of these could be interviewed; seven from Bangladesh and five from UAE. In-depth interviews were conducted using an open-ended questionnaire and one respondent from each financial institution was interviewed. Considering the key informant technique, the managerial level employees who may have specific ideas on the topic, were contacted and selected for the in-depth interview. This technique is widely reported in the market orientation literature (Narver and Slater, 1990; Diamantopoulos and Hart, 1993; Appiah-Adu, 1998; Mavondo and Farrell, 2000). The purpose of using open-ended questions was to obtain information from few situations that were similar to the researcher’s problem situation (Zikmund, 1994). In addition, in-depth face-to-face interviews were identified as suitable technique for broadening the scope of this research, catching appropriate insight of the problem, and to raise further issues that would subsequently underpin a quantitative study.

The questions for the in-depth interviews were designed and developed in such a way that the respondents’ companies could be properly examined in order to provide a clear insight into Islamic market orientation. Several drafts were made and reviewed with the consultation of two academics in the same area prior to the finalization of the questionnaire. The in-depth interview questionnaire included a set of general questions in order to determine the meaning of Islamic market orientation, and the importance of market orientation to the Islamic Banks
in both countries. These general questions were mainly adopted from the work of Kohli and Jaworski (1990) considering their wide acceptance in the market orientation literature (Hart and Diamantopoulos, 1993; Blankson and Omar, 2002).

Determination of a modest sample size was also required for this study. A review of methodological literature indicates that a small sample of in-depth interviews is more appropriate than a large sample (Yin, 1994). Thus, keeping this in mind and considering the timing, expenditure of the research, and reachability of the respondents, fourteen respondents were interviewed; nine from Bangladesh and five from UAE. Previous market orientation studies also considered a small sample size for in-depth interview purposes (Harris and Piercy, 1999; Harris 2000).

All the in-depth interviews were fully transcribed and then sorted and classified according to the major headings of the questionnaire in the systematic and iterative manner widely recommended in the qualitative literature (Turner, 1981). For this purpose, a data matrix was prepared by assigning the responses for each respondent under each question. This matrix helped the researcher to compare answers from one respondent to another (Martin and Turner, 1986) as the responses were easy to visualize.

In view of the subjective and narrative nature of the data, the validity of the data was assessed in line with Goodwin et al.’s (1997). Firstly, the researcher sent the summary of the findings to one of the respondents for his comments and suggestions. While the respondent fully agreed with the findings summary, his suggestions regarding the use of ‘as many statements from the respondents as possible’ were incorporated in the final analysis. Secondly, two academics (one from marketing and another from outside the marketing discipline) were given copies of the draft version of the findings for their comments. Both of them have approved the content of the draft and no negative comments were received from them. Nachmias and Nachmias (1996) suggested use of the inductive coding method if the study is exploratory in nature. Thus, the inductive method was used in this study for coding, categorizing, and identifying the themes from the audiotapes and transcripts (Lincoln and Guba, 1986). This method is popular in the qualitative literature (Wolcott, 1990; Feldman, 1995; Harris and Watkins, 1998; Shaw, 1999; Blankson and Omar, 2002). Crane (1997) further noted that the inductive research methodology is regarded as an appropriate method for developing insights in a relatively new and under-researched field where little is known about the phenomenon in question and where current perspectives lack empirical substantiation.

Several steps were taken in order to analyze the transcribed data. For this purpose, similar responses were identified from the data matrix on the basis of the most frequent mentioned responses and less frequent mentioned responses for coding and categorizing purposes. Responses were categorized on the basis of the similar answers from the respondent for the same question. Once coding and categorizing were done, frequencies were identified for each category before the results were ready for presentation. The style of presentation of the research results followed the case study analysis as Lincoln and Guba (1986) classified the case study as the best means for summarizing and reporting the data collected and interpreted during the course of a naturalist type of information. The research results were presented in a narrative way using simple frequency for the agreements and disagreements about the different objects considering the ‘street language’. ‘Street language’ consists of what the respondents had to say, without mediation or translation of meanings. The purpose of using ‘street language’ was to provide an insight into the Islamic market orientation of the
respondent companies. The narrative presentation of results used in this study is popular in qualitative market orientation research (Kohli and Jaworski, 1990; Harris and Watkins, 1998; Blankson and Omar, 2002).

RESULTS

Islamic Market Orientation and Its Components
In-depth interviews revealed five common elements of market orientation among the respondents of the Islamic financial institutions. These elements are; orientation on Islamic customer, orientation on information, orientation on integration, orientation on competition, and finally orientation on responsiveness. The remainder of the section reports the presentation and analysis of these elements.

Orientation on Islamic customers
The first market orientation element identified from the in-depth interviews was orientation towards Islamic customers. All the respondents mentioned that the main purpose of their institutions is to involve with marketing activities that are designed to serve the Islamic customers who believe in profit and loss sharing instead of earning fixed interest. They further suggested that, serving Islamic customers is completely different, not same as regular banking. In this case, customers are religiously biased and sensitive towards interest. Although, they favor profit and loss sharing instead of interest, but are very rigid in accepting loss. This can be witnessed from one of the respondents who stated as follows:

“First requirement has to be the attitude towards the Islamic customers. They do not like the interest concept but believe in the profit/loss sharing. We need to be very careful as we may lose our customers if they need to share losses. Thus, it is a big challenge for us not to give loss in any circumstances. If we consider this approach, the first element of market orientation should be orientation on Islamic customers. We need to do everything to make these customers happy. To me it is to deal with customers, our products, our profit sharing ratio, our ways to promote product offering, everything together.”

Another respondent stated as;

“It is important that you value Islam in order to make sure that you are doing Islamic banking. Islam prohibits interest and encourages business which means profit and loss. But honestly, can we sustain if we make loss in our banking business? Can we compete with another bank if we have a loss situation? May be, no. In addition, Islamic banking system also prohibits and stops involvement in banking activities related to gambling, pornography, alcohol, and pork. Thus, our banking job is a very challenging compared to the regular banks. Acknowledging this challenge, we value Islam and so Islamic customers and became the number one bank in the country.”

Few respondents interviewed did not talk directly about their orientation on Islam and Islamic customers rather they place emphasis on the concept of profit and loss sharing. This can be seen in the following statement as one of the respondents mentioned:

“In my opinion market orientation in the Islamic banks means, making profit by doing everything possible that makes customers’ happy. These means applying low charges for maintaining accounts, offering high profit sharing on deposit, perhaps no loss at all,
lowering the lead time (customer should not wait if they need something; for an example if you need to cash your fixed deposit – we do it in ten minutes, no complex at all).”

**Orientation on Information**

The next market orientation element identified was their orientations towards the collection of necessary information in doing business. Almost all the respondents suggested that for the sake of their existence in the business they need to collect information on many issues including; competitors both Islamic and regular banks, legislations by the national bank, change in government rules and regulations, customers’ requirements, technological advancement, and current market trend. One of the respondents stated as follows:

“It is simply nothing but doing everything possible to sustain in the market. We do collect information for the customers, competitors, politics, laws, and regulations that may affect us. As we do all these, we also respond accordingly. This is called market orientation according to us.”

It can be noted form another respondent who stated as follows:

“To us market orientation means providing necessary and expected service to our customers, know our competitors and analyze their activities, know the environmental factors that may affect us and analyze these factors. As we do all these, we also make necessary strategic actions on the customers, competitors, and market environment.”

One of the respondents suggested that they collect information in both formal and informal ways. The respondent stated as follows:

“We do research our customers periodically. We normally use different interns for this purpose. Our existing customers as well as lost customers are interviewed. For the lost customers, sometimes I personally call them to know why they have moved from us. We try to know the reasons of their dissatisfaction. I sometimes also call the existing customers in need to know the reasons of their satisfaction and dissatisfaction. We also informally research our existing customers as they come to our bank. This we do informally just by talking to them. Everyday many customers come and sit in my office as they want to say hello. As head of the branch, I take this advantage and talk about the various issues about our bank as well as their experience with other banks. This gives us an idea about what our customers look for as well as their state of mind regarding other banks. I simply see my customers as my friends which allow me to collect informal information regarding the different banking issues that they hold in their minds.”

**Orientation on Integration**

The in-depth interviews reveal that the Islamic banks place emphasis on internal integration regarding the share of market information and decision making. Everything that they do in this banking system, they do it in a coordinated way. They share the different collected information among all the departments for a better decision making. As can be seen from the statements of the two respondents:

“To me market orientation means internal communication. In our bank, whatever we do, we do unanimously. We do not see walls in between us. Once information is known about anything whether it is about our customers, competitors, laws, rules or regulations, we share
that among all of us. We sit together in different meetings to discuss about the information for a better decision making.”

“A bank that share democracy within the different departments of the bank in terms of sharing information, in terms of decision making, for the purpose of enhancing customers satisfaction is known to be market oriented. I am a marketing graduate and I know that four pillars make a company market oriented like select the target, identify the need and want of the target, integrate marketing, and make profit by satisfying customers. We follow the same procedure in our bank and we consider ourselves as market oriented Islamic bank.”

**Orientation on Competition**

All the respondents interviewed stressed the importance on their orientation towards the competitors. They suggested that it is imperative for any Islamic bank to compete with two different banking systems; first among the Islamic banks and second, with the regular banks. It was revealed from the in-depth interviews that the Islamic banks must understand their short term and long term abilities in fighting with different kinds of competitors. They must analyze the competitors’ resources, policies, strategies, technological capabilities and, competitive advantages arise from the culture. As can be referred to the in-depth interviews, two of the respondents stated as follows:

“I see it difficult for us to serve as we need to compete with both Islamic and non-Islamic banks. We must know our abilities compared to our own rivals as well as non-Islamic banks. Despite the fact that our target is completely different than non-Islamic banks but similar in terms of the benefits that they expect. We experience much difficulty when we need to consider fixed interest as a base of determining profit sharing ratio. We may lose our customers if we cannot generate and offer same profit compared to the current interest rate of the market. It is rather a tough job.”

“In my opinion, market orientation means orientation towards customers’ current and future requirements. It means the extent of which we can make them happy. This can be done if we can upgrade ourselves by analyzing our competitors’ resources, policies, and strategies. We need to upgrade our technologies before our competitors’ do. In order to be ahead of the market, we need to adopt new technological capabilities. We must see if we have competitive advantage in terms of culture. The reality is; if we need to be a competitive and profit making bank, we must analyze our competitors and take the advantages of their weaknesses by investing resources in the areas of where the competitors are week. This will definitely put us on the ahead of the line”

**Orientation on Responsiveness**

The in-depth interviews reveal that the Islamic banks are oriented towards responding to the customers’ needs and wants. As soon as they feel that certain job is doable and it goes for the benefit of the customers, they make appropriate action immediately. It is further reveals that, since Islamic banks work under certain rules and regulations set by the national banks, they may not respond to all kinds of requirements of the customers but do things that are within the limit of the banks. As can be referred from the in-depth interviews, three of the respondents stated as follows respectively:

“Market orientation means to us to create superior value for our customers and we do that by adding benefits to our offerings, taking appropriate actions to serve our customers. As we
do that, we need to be integrated among ourselves in all aspects like during decision making as well as during implementation of decisions.”

“To us market orientation means analyzing customers required and expected service and to design product offerings for their satisfaction, know our competitors and analyze their activities, know the environmental factors that may affect us and analyze these factors. As we do all these, we also make necessary strategic actions on the competitors, and market environment in order to respond to our customers’ desired need.”

“It is to initiate all marketing activities like, product, price, place and promotion for the benefit of our customers. We offer products according to the Islamic need of our customers, we fix profit on the basis of the current trend of the market which is adjustable depending on the profit and loss situation, we have our branches as needed, and we promote our offerings as needed from time to time. This means that we are responsive to our customers in all aspects. To us this is market orientation.”

The in-depth interview results provided above formulates a definition of Islamic market orientation which means “to have orientation on Islamic customers, orientation on information regarding customers and the factors affecting customers, orientation on internal integration in disseminating information and decision making, orientation on competitors and their activities, and finally to have orientation on responsiveness that requires action considering the customers and market requirements”.

**DISCUSSION AND CONCLUSION**

As displayed in Figure 1, five elements build the formation of Islamic market orientation. When these activities are taken together in order to serve the customers, market oriented behavior can be witnessed among the Islamic banks.

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**Figure 1: Islamic Market Orientation**
As this study identifies the components that embody Islamic market orientation, the first component, orientation on Islamic customers can be considered same as customer orientation identified by Narver and Slater (1990) and Deshpande, Farley, and Webster (1993). In spite of this similarity, a significant difference can be seen between the customers of the Islamic and conventional market orientation system. With few exceptions, under the Islamic market orientation, the customers are mainly Muslims and hold core Islamic cultural values. Thus, in order to be market oriented Islamic financial institutions must adopt its orientation on Islamic customers. The next component, information orientation is similar to Kohli and Jaworski (1990), and Ruekert (1992). While Kohli and Jaworski (1990) viewed information generation by using formal and informal means not only for customers but also for all the necessary factors that affect customers, Ruekert (1992) recommended managers to collect and interpret information from the external environment in order to set goals and objectives. Similarly, in order to collect information, this study also suggests managers of the Islamic banks to conduct research using both formal and informal means which can be later used for setting customer oriented goals and objectives. The integration orientation identified in this study can be seen same as Shapiro (1988), Kohli and Jaworski (1990), Narver and Slater (1990). While, Shapiro (1990) suggested permeating information into every corporate function, Kohli and Jaworski (1990) suggested disseminating information effectively and efficiently in all parts of the organization to create an effective communication and dissemination system. On the other hand, Narver and Slater (1990) suggested a company to coordinate utilizing its resources to create superior value for the target market. The results of this study confirm the recommendation of all three of them by suggesting Islamic banks to integrate their activities in terms of sharing information, use the shared information in decision making that create superior value for their customers. The competitor orientation resulted in this study can be viewed same as Narver and Slater (1990) where they suggested thorough analysis of the competitors abilities, policies and strategies as the information is collected. The results of this study also recommend Islamic banks to consider competitors capabilities in every aspects whether it is to deal with product offerings or to policy and decision making to help creating superior value for their customers. Orientation on responsiveness is the final market orientation component identified in the results. This component is supported by Shapiro (1988) who recommended on execute decisions, Kohli and Jaworski (1990) who recommend on responding to the needs and wants of the market, and Ruekert (1992) who recommended on the implantation and execution of strategies relating to the needs and wants of the target market. This study also suggests the mangers of Islamic banks to respond according to the required needs and wants of their customers keeping in mind the legislations and restrictions imposed by the central bank. They must seek a balance between these two in creating superior customer values for their product and service offerings which in turn help them maximizing business objectives. As referred to the discussion above, it can be concluded that the Islamic market orientation identified in this study does not represent any single conventional market orientation approach available in the literature rather justifies its uniqueness by incorporating components from different approaches.

This is a qualitative research that explores the components that form the extent of Islamic market orientation. This kind of study was needed in order to identify the insights of how market orientation is being practiced among the financial institutions. The future study however, must operationalize the variables displayed in Figure 2 and collect quantitative data in larger extent including all kinds of financial institutions. It should be interesting to see the results of the future quantitative research to find out the support of the results of this study. The results of future quantitative study may also be compared with the results of conventional...
market orientation studies available in the literature to see whether they both result similar outcomes.

REFERENCES


Abstract
Evidence from extant literature reviewed on the studies of market orientation, supplier integration and customer integration on product innovation are still unclear and inconclusive. Previous researches on the above mention variables has been studied separately on product innovation. Besides, the roles of moderating variables have been ignored in product innovation literature. Therefore, one of the limitations with these studies is that it does not explain clearly and comprehensively on product innovation. This study thus, incorporates these constructs collectively and investigates the roles of customer and supplier integration in mediating the effects of market orientation on product innovation. This study will be based on the Resource-Based view (RBV) and Relational view theory to construct the framework. The study will be conducted in Malaysia through self administered questionnaires and target sample is drawn from a list of Federation of Malaysia Manufacturers.

Keywords: market orientation; supplier integration; customer integration; product innovation

INTRODUCTION
It is becoming increasingly difficult to ignore today’s need for product innovation in a highly competitive global market. This is because it increases profit and escalates volatility of business (Koufteros, Vonderembse, & Doll, 2001). For these reasons, firms must continually generate new ideas and processes to survive (Johnson, Meyer, Berkowitz, Ethington, & Miller, 1997). The common practice shows that, cell phone companies such as Apple, Samsung, Nokia, HTC and Motorola are in fierce competition with each other in the form of product innovation. Each company feels the responsibility to produce innovative product to win the market. In light of the above observation, Koufteros et al. (2001) establish that many firms respond to growing international business competition by fulfilling the customers’ claim for innovative and high quality product to satisfy their basic needs and attract them through the new features. In essence, researchers agree that product innovation influence business performance, company survival and competitive advantages (Chapman & Hyland, 2004; Koufteros et al., 2001). Therefore, firms must innovate to win customers’ demands for superior products in order to survive in the global competitive business settings.
Central to the discussion of product innovation is the concept of market orientation and external integration. Market orientation is one of the important elements to drive innovation (Hult, Hurley, & Knight, 2004; Hurley & Hult, 1998) and it is a critical resource (Hunt & Morgan, 1995). It also maintained that, firms with market orientation have a deep understanding of customer (Hult et al., 2004). However, there is an increasing concern in the form of mixed findings on the effects of market orientation. For instance, researchers including (Lisbao, Skarmeas, & Lages, 2011; Mu & Di Benedetto, 2011) found that market orientation is the best predictor of innovativeness, although Atuahence-Gima (1996) found a different story that market orientation is negatively related to product newness.

Besides, there is another concept named external integration which is composed of customer integration and supplier integration. Common practices show that, complication and unpredictability of markets and technologies integrate many firms with external sources to solve business problems (Nooteboom, 1999). In order to have a common and synchronized process, most firms are likely to integrate their external members (Stank, Keller, & Daugherty, 2001). However, existing research has contradictory findings explain this matter. For instance, Koufteros, Vonderembse, and Jayaram (2005) establish supplier integration is negatively related to product innovation, others including Lau, Tang, and Yam (2010) maintain that it is customer integration which is not related to product innovation.

In addition to that, market orientation has been hypothesized separately as a significant determinant of external integration and product innovation (Baker & Sinkula, 1999a; Braunscheidel & Suresh, 2009; Lukas & Ferrel, 2000). The inconsistency of findings create a knowledge gap in the field of product innovation. This is because the influence of supplier integration and customer integration as intervening variables has not been appreciated. In the light of that experience, there is a need to find out whether external integration is fully or partially mediates the effects of market orientation on product innovation.

In sum, a serious limitation with the said findings, however, is that they expose product manufacturing into endless confusion regarding product innovation. Previous studies have inadequately addressed the relationship of market orientation as antecedents of external integration and product innovation, and have focused scanty on the roles of external integration to product innovation. Lack of this information has existed as a key problem among product manufacturing in the present competitive business settings. Therefore, the proposed study intends to fill the knowledge gap by investigating the relationship of market orientation and external integration to product innovation in the context of product manufacturing in Malaysia.

Specifically, this study attempts: (1) to identify the relationship between market orientation on supplier integration and customer integration; (2) to identify the relationship between market orientation, supplier integration and customer integration on product innovation; (3) to ascertain the mediating effects of customer integration and supplier integration on the relationship between market orientation on product innovation.

The findings of this study would add knowledge in the field of supply chain integration and product innovation. This study suggests market orientation as antecedent of external integration. It facilitates the understanding of how market orientation explains external integration. Besides that, this study contributes to the product innovation literature by proposing market orientation and external integration as antecedents of product innovation. These factors have been studied separately in empirical studies and would cause limited
critical insights to product innovation. Thus, by considering the aforesaid antecedents of product innovation, the study can create deeper understanding of product innovation. Moreover, the study examines whether external integration mediates relationship between market orientation on product innovation to advance the present literature. For that reason, the assessment of a mediating role for external integration could deepen understanding about a probable underlying mechanism responsible for the relationship between market orientation on product innovation. Moreover, its practical contribution is to provide a proper direction for managers to develop robust and effective product innovation and external integration. The findings can help firms to increase product innovation by understanding how market orientation, customer integration and supplier integration influence product innovation.

THEORIES UNDERPINNING THE STUDY

Resource-Based View (RBV)
The first researcher to present resource-based view is Wernerfelt (1984) who argues that unique resources and capabilities enhance firms to achieve competitive advantage and improve firm performance (Barney, 1991); this is because competitors are unable to imitate and duplicate them easily (Barney, 1991; Wernerfelt, 1984). However, the said competitive advantage can be obtained when both resources and capabilities work together (Baker & Sinkula, 2005) and must be in the form of valuable and non-substitutable (Barney, 1991). Elsewhere, literature on RBV classifies resources into tangible and intangible, and assigns assets to the former and capabilities to the later (Day, 1994; Hunt & Morgan, 1995). As intangible resources, capabilities in the framework of specific ability, processes and procedures, organization characteristics, culture and competency, employee skill and knowledge help firms to influence tangible assets such as land, machines and buildings, to achieve competitive advantage (Barney, 1991).

For the sake of this study, RBV is used to illustrate how the firm can produce valuable and distinctive innovative products (Barney, 1991; Wernerfelt, 1984). According to Barney (1986), it is difficult to duplicate organizational culture which facilitates implementation of strategies to increase competitive advantage. Since market orientation originates from organizational culture, some researchers argue that they are equally to firm resource (Baker & Sinkula, 2005; Brettel & Cleven, 2011; Hunt & Morgan, 1995).

Moreover, other researchers use RBV to explain the relationship between external integration and competitive advantage (Schoenherr & Swink, 2011; Verona, 1999). In practice, external integration can develop unique resources and capabilities to enhance firm competency and lead to product innovation. For that reason, RBV provides a fundamental base for development of market orientation, supplier integration and customer integration which are difficult to be duplicated by competitors.

Relational View Theory
A considerable amount of literature has been published on the relational view theory. For instance, Dyer and Singh (1998) categorize relational rents into relation-specific assets, knowledge-sharing routines, complementary resources and effective governance to define it as "a supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners"(Dyer & Singh, 1998:662). In this case, it is prerequisite for firms to focus on specific investment in relationships (Dyer & Singh, 1998) to improve product development performance. For that reason, firms which generate
relational rents may achieve product innovation, because idiosyncratic relationships help them to produce beyond their competitors. It is established that “firms’ critical resources may span firm boundaries and be embedded in inter-firm routines and processes” (Dyer & Singh, 1998:661). Therefore, relational rent plays a crucial role in network and dyads of firms.

Several researchers acknowledge the relational view that explains the relationship between firms (Chen & Paulraj, 2004; Dyer & Singh, 1998). For that reason, it is justifiable to relate relational view to study external integration, because it emphasizes inter firm relationship as the unit of analysis. Certainly, firms should not only be interested on partner resources, but also it should contribute to common objectives, to form valuable communication practices and share organization values across closed partners (Schoenherr & Swink, 2011). However, the present explanations just put RBV to focus on benefits of resources within the firms and may neglect the relationship between firms (Chen & Paulraj, 2004). Therefore, the proposed study focuses external integration as grounded on resources based view and relational view theories to help firms focus on inter-firm relationships. Given the said understanding, when firms appropriately manage their suppliers and customer relationship, they can acquire and exploit unique resources and capacities for innovative product development because their relationship is beyond business operation. This is in line with Devaraj, Krajewski, and Wei (2007) and Schoenherr and Swink (2011) empirical studies who establish that combination of RBV and relational view can better explain external integration.

LITERATURE REVIEW

Market Orientation

Central to the discussion of customers’ values is the concept of market orientation. This is one of the firms’ significant factors to set utmost priority that benefits value creation for customers, and is defined as “the organizational culture that most effectively and efficiently creates necessary behaviors for the creation of superior value for buyers and superior performance for business” (Narver & Slater, 1990:21). Similarly, on another study, Slater and Narver (1995: 67) describe it as “culture that places the highest priority on profitability on profitable creation and maintenance of superior customer value, while considering the interests of other stakeholders and provides norms for behavior regarding organizational development and responsive to market information”.

Elsewhere, Jaworski and Kohli (1993:54) stress that market orientation highlights firms’ requirement needed to acquire and disseminate information that respond to market through their buyers and competitors and it is defined as “the organization-wide information generation and dissemination and appropriate response related to current and future needs and preferences”. Building from this understanding, it is clear that market orientation is conceptualized based on behavioral perspective (Kohli & Jaworski, 1990) and cultural perspective (Narver & Slater, 1990).

Market orientation is known by its three organizational behaviors such as customer orientation, competitor orientation and inter-functional orientation. Customer orientation is concerned with compilation of information regarding customers’ needs and expectation (Day, 1994; Hunt & Morgan, 1995) whilst competitor orientation is concerned with the manufacturer’s capacity to investigate, recognize and react to competitors’ strategies (Kohli & Jaworski, 1990). In addition to that, inter functional coordination is identified collaboration between different departments in a firm that performed particular projects (Narver & Slater, 1990). In practice, firms with market orientation can react and respond to competitor strategies and market needs (Narver & Slater, 1990).
**External Integration**

External integration composed of customer integration and supplier integration. It is maintained that to communicate with customers and suppliers can reduce product development time (Liker, Collins, & Hull, 1999), whereas, Swink, Narasimhan and Wang (2007) emphasize external integration to increase understanding of partners’ needs and decrease business uncertainties. In the light of the said observation, Caloghirou, Kastelli and Tsakanikas (2004) state that external knowledge is one of the most significant sources to boost innovation performance. Besides, Fronhlich and Westbrook (2001) consider external integration is related to firm performance.

Furthermore, external collaboration is a critical factor to increase innovativeness (Caloghirou et al., 2004). For that reason, Rungtusanatham, Salvador, Forza, and Choi (2003) also discuss both supplier integration and customer integration as constructive strategies to obtain external resources and provide new knowledge to encourage close interaction between supply chain members (Narasimhan, Swink & Viswanathan, 2010). In the same line of discourse, Swink et al. (2007) posit that external information can be used to facilitate firm’s improvement.

**Customer Integration**

Customer integration addresses cooperation between firm and customers. According to Swink et al. (2007), the process of strategic customer integration emphasizes the acquisition and capitalizing on customers’ information. Several authors (Koufteros et al., 2005; Millson & Wilemon, 2002; Sherman, Souder & Svenn, 2000; Swink et al., 2007; Wong, Boon-itt & Wong, 2011) associate customer integration link to product innovation through customer feedback and information; decreases development cycle time; defines key customers’ need; identifies market outlook and enhances company performance. For that reason, it smooth progress of business plan through reducing time, risk and investments (Knudsen, 2007). Therefore, communication with customers and obtaining customer’s feedback can increase the relationship with the customer (Swink et al., 2007).

**Supplier Integration**

Supplier integration in the early stage of product development is a valuable process (Koufteros et al. 2005; Petersen, Handfield & Ragatz, 2003), and “is an important coordinating mechanism for decisions making that link product design, process design and supply chain design together” (Petersen, Handfield & Ragatz, 2005:372). For that reason, to speed up developing products, firms must collaborate and frequently communicate with suppliers in the early development stage (Sobrero and Roberts, 2002).

**Product Innovation**

It is becoming increasing difficult to ignore multiple definitions of the construct product innovation (Garcia and Calantone, 2002). For instance, Damanpour (1991:561) defines it as “new products or services introduced to meet an external user or market need” whilst Koufteros et al. (2001:101), conceptualizes it as “the capability of organizations to introduce new products and features”. Recently, Laforet (2012:3) has considered it as “introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses”. Given such multiple conceptualization of the concept, it is certain that measurement of product innovation is relatively a difficult issue to solve (Becheikh, Landry & Amara, 2006).
Market Orientation as a Source of Product Innovation
There is an increasing concern in the form of mixed findings on the effects of market orientation. For instance, researchers including (e.g. Baker & Sinkula, 1999a; Baker & Sinkula, 1999b; Baker & Sinkula, 2005; Lisboa et al., 2011; Lukas & Ferrell; 2000; Mu & Di Benedetto, 2011) found that market orientation is the best predictor of innovativeness, although Atuahence-Gima (1996) found a different story that market orientation is negatively related to product newness. A serious limitation with the said findings, however, is that they expose product manufacturing into endless confusion regarding product innovation.

Baker and Sinkula (2005) found that statistical analysis on a sample of 243 of marketing executives acknowledges market orientation to have a significant positive impact on the success of new products and profitability. Moreover, Lisboa et al. (2011) has indicated customer orientation is an antecedent of exploitative innovative and explorative innovative capabilities, whereas, competitor orientation only influence exploitative innovative capabilities. In another study, Cheng and Krumwiede (2012) found that customer orientation predicts incremental service innovation while inter-functional coordination and competitor orientation predict radical service innovation. Additionally, Mu and DI Benedetto (2011) in their study of 348 respondents in China also found that market orientation significantly predicts new product commercialization performance.

Market Orientation as a Source of External Integration
A firm’s strategy is likely to be influenced by its culture value (Porter, 1996 as cited in Frambach, Prabhhu & Verhallen, 2003). In this study, cultural perspective of market orientation is adopted as antecedent of the firm’s strategies. Pagell (2004) posits that culture and constitutional of the firm can inspire whole supply chain associate to collaborate and communicate. Besides, Min, Mentzer & Ladd (2007) found that market orientation improves supply chain orientation and supply chain management. Elsewhere, market orientation can be an antecedent of collaboration between supply chain members (Liao, Chang, Wu & Katrichis, 2011) as Martin and Grbac (2003) report that the customer oriented firm facilitates relationship with suppliers to provide superior customer value and build close relationship with suppliers. Moreover, Lin, Wang and Yu (2010) evidence relationship between market orientation and supply chain performance by highlighting on strategy orientation and innovation in channel integration. They found that market orientation significantly predict supply chain performance with embedding operant resources and resources integration.

However, there are also unexpected findings regarding the role of market orientation. For instance, Brettel and Cleven (2011) report future market orientation is positively related to collaboration with the supplier but not customer in producing new products. Frambach et al. (2003) examine market orientation on behavioral view to predict impact of business strategy on market orientation. Their findings suggest that market orientation is a mediating variable between business strategies and new product activity. Moreover, Mavondo, Chimhanhanzi and Stewart (2005) examine the role of market orientation as a mediating variable between learning orientation and innovation in a sample of 227 Australian high technology industries. Besides, Martin and Grbac (2003) argue that the link between market orientation and supplier relationship is scarcity.

External Integration as a Source of Product Innovation
A lot of research has been studied about the effects of external integration of product innovation. However, the debate about how external integration impact on product innovation still continues. For example, Koufteros et al. (2005) examine the influence of integration on
product innovation in 244 manufacturing firms and report that supplier product integration is negatively associated with product innovation while the relationship between supplier process integration and product innovation is not significant. Also, a study conducted in Hong Kong by Lau et al. (2010) found that product co-development and information sharing with customers is not related to product innovation. Moreover, Koufteros, Edwin Cheng and Lai (2007) identify the impact of supplier integration on product innovation in a sample of 157 U.S firms. The results indicate only gray-box supplier integration positive impact on product innovation while the black-box supplier integration does not impact on product innovation.

However, other researchers indicate external integration improve product innovation. For example, one of the objectives of Lau et al. (2010) from 251 manufacturers in Hong Kong is to test a relationship between product co-development and product modularity. The results suggest product co-development with suppliers and customer assist manufacturers to expand into new products and increase product performance. Moreover, Handfield, Petersen, Cousins and Lawson (2009) conduct a research on a sample of UK manufacturing and service firms. Their findings indicate cross enterprise and supplier integration improves buyer performance such as improved product design and product quality as well as reduced cycle time. Besides, Brettel and Cleven (2011) drew on RBV and Kitchell’s (1995) innovation adoption model to investigate the impact of innovation culture of collaboration with external partner and on new product development performance. The findings reveal that collaboration with customer and supplier develop new product, reduce product shortage, and become effective and efficient in new product design.

In summary, the above literature suggests that findings of external integration on product innovation are still unconvincing, though the weight of support from past study posits that external integration facilitates product innovation.

![Figure 1 Conceptual framework.](image-url)
HYPOTHESES DEVELOPMENT

Relationship between Market Orientation and Product Innovation

Improving product innovation is an imperative subject for firms because it is linked to business sustainability and profitability. Based on RBV, market orientation is rare resources which useful to improve firms’ capability on product innovation and consider manufacturer as a place for compilation of resources which are rare, valuable, non-substitutable and unique (Barney, 1991). Elsewhere, Hunt and Morgan (1995) suggest that market orientation is one of the priceless resources which positively related to competitive advantage.

Researchers maintained market orientation as a culture of the firm to generate necessary actions for producing superior value for customers (Narver & Slater, 1990). Thus, a market oriented firm is likely to increase customer value through customized and unique features of products. Besides, Day (1994) demonstrated that the market oriented firm is likely to discover more conscious ways to improve products which fit their market needs. In practice, they fit their product through observing and generating the information on the subject of customers and competitors which is later disseminated throughout manufacturer department (Narver & Slater, 1990). This information allows firms to identify and improve their product position in the market place. For that reason, the market oriented firm is likely to increase product innovation.

Moreover, it is established that market orientation is practiced to increase firm’s capability to satisfy customer’s needs (Luo, Sivakumar & Liu, 2005). Certainly, manufacturers with high levels of market orientation are likely to produce innovative products. This is because they are enthusiastic to understand and fulfill customers’ needs. Besides, the market oriented firm is likely to respond customer needs on time in the form of product innovation (Zhou & Li, 2010). Elsewhere, a study by Atuahene-Gima (1996) confirms the direct positive effects of market orientation on product innovation. Therefore, the following hypothesis is proposed:

Hypothesis 1. Market orientation is positively related to product innovation.

Relationship between Market Orientation and External Integration

A number of studies have justified the relationship between market orientation and resource integration (Han, Kim & Srivastava, 1998; Lin et al., 2010), supply chain management strategy (Green, McGaughey & Casey, 2006) and supply chain performance (Lin et al., 2010; Min et al., 2007). However studies on the relations between market orientation and external integration is still limited.

Market orientation is associated with important organizational practices to generate necessary actions to produce superior value for the customers (Narver & Slater, 1990). For that reason, market orientation may adopt external integration because in essence several authors have confirmed the benefit of external integration on business operation (Fronhlich & Westbrook, 2001; Swink et al., 2007). For instance, once the decision maker realizes the benefits of external integration, the firm would adopt external integration as their strategy to continuously discover ways to improve suitable products to meet market needs (Day, 1994). Therefore, market oriented firms that are supported by external integration are likely to provide more values which cannot be achieved by an independent firm (Dyer, 1996).

In practice, in order to fulfill customers’ needs rapidly, the market oriented firm may adopt supplier integration. This is because when they synchronize the development with key
suppliers, the development process will become more fluent. Consequently, customers obtain more effective and efficient products (Rosenzweig, Roth & Dean, 2003). Elsewhere, Martin and Grbac (2003) show that the market oriented firm can solve customers’ problems more successfully than its competitor through a strong supplier relationship. Likewise, a firm with high levels of market orientation is likely to grab opportunities to integrate with customers. This is because customer integration helps the firm to connect with key customers more closely which go beyond sales transactions. For that reason, they can comprehend the customer need more intensely and this information is valuable to strategic business direction. In sum, the market oriented firm is likely to adopt external integration. A study by Braunscheidel and Suresh (2009) show market orientation is positively related to external integration. Therefore, the following hypothesis is proposed:

**Hypothesis 2.** Market orientation is positively related to supplier integration.

**Hypothesis 3.** Market orientation is positively related to customer integration.

### Relationship between External Integration and Product Innovation

Many researchers have used RBV to explain the role of integration in determining competitive advantage (Devaraj et al., 2007; Rosenzweig et al., 2003; Wernerfelt, 1984). However, it neglects the relationship between firms (Chen & Paulraj, 2004). For that reason, relational view is included in this study to explain the effect of external integration on product innovation.

In practice, product innovation requires enormous unique resources and valuable capabilities to grow; though they are becoming insufficient to fulfill global market requirements (Neito & Santamaria, 2007). Researchers (Kim, 2009; Neito & Santamaria, 2007) argue that in house development new resources and capabilities is an unwise and hard decision to achieve. Elsewhere, Schoenherr and Swink (2011) argue firm needs to put in more effort and time in developing new resources and skills for competing. For that reason, Kim (2009) suggests integration with other firms help to achieve competitive capabilities more easily. This is because external integration allows exploitation of external resources and capabilities for firm intention (Schoenherr & Swink, 2011). Therefore, combination of resources and capabilities from customer and supplier can effectively and efficiently help firms to develop unique resources and capabilities for product innovation.

Based on relational and resource-based view, the firm pursues customer integration goes beyond business functions. It encourages customers provide innovative products attribute information which can be used to support firm’s development processes. A high level of customer integration does not only reveal higher effective and efficient response to customer desires, but also reduces business uncertainties rapidly (Swink et al., 2007). Elsewhere, customer integration is recognized as a significant practice that offer market prospects (Wong et al., 2011). Therefore, firm with a high level of customer integration is more likely to identify responsibilities for managing customer relationships and product innovation.

Similarly, based on the aforesaid theories, supplier integration goes beyond business operation. A study by Neito and Santamaria (2007) show that supplier integration is most needed to develop product innovation. Elsewhere, according to Ragatz, Handfield and Ragatz (2002), supplier capabilities can also be used to complement the firm’s weaknesses. In practice, supplier integration is an activity which improves firm’s understanding into suppliers’ capability and limitations (Ragatz et al., 2002). This knowledge can be used for firm to identify the capabilities of each supplier in providing their services on product
innovation. For that reason, the firm can realize whether the ideas of product innovation can be implemented at an earlier stage. Moreover, as suppliers contribute their existing resources and capabilities to firm, such firm tend to reduce its technical problems and poor design hitches (Knudsen, 2007). Therefore, firm with high levels of supplier integration is likely to encourage product innovation.

Moreover, according to Rosenzweig et al. (2003), a greater level of integration reflects higher value added activities which are incorporated in the supply chain. External integration allows a firm to understand customers’ needs and suppliers’ capabilities. Thus, if external integration is implemented in the early stages of product development, innovation outcome can be achieved more quickly (Liker et al., 1999). In practice, integration with suppliers and customers together is useful for firm because it gives key suppliers and customers’ information to facilitate product innovation development. Therefore firms that are engaged in external integration are more effective and efficient than individual firm to produce innovative products.

Hypothesis 4. Supplier integration is positively related to product innovation.
Hypothesis 5. Customer integration is positively related to product innovation.

The Mediating Role of External Integration

Based on RBV, resources is significant to firm’ competitive advantage when joining with complementary capabilities (Barney, 199; Wernerfelt, 1984). Market orientation value is difficult to duplicate and it becomes sources of competitive advantage. However, in the light of RBV, these resources are insufficient to increase competitive advantage, in the absence of the capabilities. For that reason, firms with market orientation may improve product innovation through external integration.

Green et al. (2006) study the influence of market orientation on supply chain management strategies and organizational performance in US manufacturers and found that supply chain management strategy is a mediator between market orientation and marketing performance. Meanwhile, Droge, Vickery and Jacobs (2012) explored external integration as a mediating variable between strategy and performance in a study based on automotive manufacturers in North America and found that customer integration significantly explain the relationship between product and process modularity strategies on service performance. However, supplier integration mediates only the relationship between process modularity and delivery performance.

In another study, Kim (2009) argues that integration with supply chain members can complement resources and capabilities for business performance. As it has been recorded, market orientation is an important determinant of external integration practices which relates to product innovation. For that reason, market orientation can indirectly influence product innovation through adopting customer integration and supplier integration. Therefore, these indirect effects could happen because external integration may helps firm to leverage the values of market orientation.

Similarly, Day (1994) has argued that market orientation must work through complementary capabilities in order to increase competitive capabilities. Martin and Grbac (2003) demonstrate the role of supplier as a mediator between market orientation and firm’s performance. They argue that suppliers can leverage market orientation values through developing superior value for customers. In practice, information from customers and
competitors coupled with closed supplier relationship can propel firms to deliver innovative products. This is because the market oriented firm can discuss with key suppliers to overcome competitors’ strategies and fulfill customer needs. Likewise, a combination of market information and customer relationship that go beyond sales transactions may enhance product innovation. This is because information collected from customers and competitors can help firm to enhance working relationships with customers and subsequently improves the product innovation of the firm. In the light of the above discussion, the following hypothesis is proposed:

**Hypothesis 6.** Supplier integration mediates the relationship between market orientation and product innovation.

**Hypothesis 7.** Customer integration mediates the relationship between market orientation and product innovation.

**METHODS**

**Sample**
In this study quantitative research is used to examine the hypothesis through collecting data and then generalize the findings from a sample. The proposed study employs this methodology because it supports the use of questionnaires to collect numerical data in the context of explaining the relationship between studying variables (Miles and Huberman, 1994).

The study adopts purposive sampling which is one type of non probability sampling method. This method selects because the researcher has a specific category of product industry including machinery and equipment, electrical and electronics and automotive industries in mind to fit the proposed research objectives. The selection of the said types of industries is based on characteristics of their products, such as a shorter product life cycle, having a higher profit margin and the products being in volatile demands (Fisher, 1997). Moreover, these industries will be selected because of their supposed adequate knowledge of supply chain integration in producing complex and complicated products.

The target population is registered product manufacturing in Malaysia. This is because they accommodate most of final decision on the product (Swink et al. 2007). The researcher will include 900 manufacturing firms from the 2011 Federation of Malaysian Manufacturers (FMM) directory to represent machinery and equipment, electrical and electronics and automotive industries.

For the sake of the proposed study, the researcher will focus on individuals with senior managerial positions through a questionnaire to elicit primary data which provide answers to research questions. Primary data is more reliable and may reduce biases as compared to secondary data. Statistical Package for Social Sciences (SPSS) and Structural Equation Modeling (SEM) are used for data analysis and hypothesis testing.

**Measures**
The questionnaire is divided into five sections to measure market orientation, supplier integration, customer integration, product innovation, control variables and managerial purposes. The first section is considered to capture the information about the extent of firm undertakes the market orientation practices. It is aimed to determine whether the strategies of
the firm focus on customer value. The scale provided ranged from strongly disagree = 1 to strongly agree = 5. The items are adapted from Narver and Slater (1990).

Since the questions of external integration are plenty, thus the most appropriate and suitable items are chosen carefully to suit the objective of the study. Instruments that measured external integration are adopted from Schoenherr and Swink (2011). The Likert scales anchoring 1 = strongly disagree to 5 = strongly agree is utilized to measure the construct of customer integration and supplier integration.

Product innovation is measured using subjective measurement. Jennings and Young’s (1990) contended that both subjective and objective innovation dimensions can be used. The Likert scales anchoring 1 = much below to 7 = much above was used to measure the product innovation. The items are adapted from Koufteros et al (2001).

Next section consisted of two control variables and managerial purposes questions. The control variables are firm size and firm age. Firm size is measured by using the number of employees and firm age by asking how many years manufacturer has been operating.

**CONCLUSION**

The literature review demonstrates there are mixed findings on how firms pursue their product innovation. Evidence from literature review invites the same conclusion in which the studies of market orientation, supplier integration and customer integration on product innovation are still unclear and incomprehensible. The abstraction of findings causes academicians and practitioners difficult to comprehend how to achieve product innovation.

Besides, previous research on the issues of market orientation, external integration and product innovation are generally examined in separate studies. There is no integrated model of these particular variables. Therefore, this study attempts to investigate these particular variables in the integrated model. The research hypotheses demonstrate the relationship between market orientation, external integration and product innovation. The mediating effect of external integration is included in this study. Therefore, this combination variables and inclusion of mediating variables can provide an addition outlook for top management and researchers. In other words, the findings can help firms to increase product innovation by understanding how market orientation, customer integration and supplier integration influence product innovation. The proposed framework for this study is based on resource-based view and relational view theory.

**REFERENCES**


Market orientation on product innovation: The roles of Supplier integration and customer integration


Market orientation on product innovation: The roles of Supplier integration and customer integration


Budgetary Participation as an Antecedent to Innovation

Abstract
While the notion that firms pursue innovation is not controversial, it is one of the most complex processes employed by organizations and results vary greatly across companies. This paper investigates the link between budgetary participation intensity and innovation, using communication and decentralization as mediators to such relationships. Our findings in a developing country setting indicate that budgetary participation intensity is antecedent to communication and decentralization that in turn affect innovation. Moreover, budgetary participation intensity affects indirectly innovation when decentralization and communication are embedded in path analysis modeling as mediators between budgetary participation and innovation.

Keywords: budgetary participation, communication, decentralization, innovation.

Introduction
The belief that business firms should be engaged in innovation activities is well accepted across companies seeking market niche, customer alignments, efficiency improvement, better financial performance, and long term competitive advantage (Sorensen, 2002; Bussey, 2012; Brynjolfsson and Scharage, 2009; Herring and Galagan, 2011). While the payback of such activity is not controversial, it is one of the most complex, difficult and costly processes to be implemented (More, 2011). To comprehend such complexity, several scholars have investigated the internal and external environmental factors that foster innovation activity. External factors that have been linked to innovation include the economic environment (Damanpour and Schneider, 2006), Competition and market conditions (Kaiserfed, 2005), technology (Brynjolfsson and Scharage, 2009), government support (More, 2011), environmental dynamism (Koberg, al. 2003) and environment uncertainty (McGinnis & Ackelsberg, 1983).

Internal factors linked to innovation include the organizations’ structures and processes (Damanpour, 1996); Organization size (Damanpour and Schneider, 2006); organizational knowledge and information (Cowan and Jonard, 2003); organization at complexity, and top management education at accomplishment (Damanpour and Schneider, 2006); and research and development (Yang et al. 2009, Sampson 2007, Mikkola 2001, Raymond et al. 2007). Although, these factors have been shown to differentially impact innovation, research on innovation antecedents have received negligible scholarly attention. Shields and Shields (1998) advocate that participation in the budgetary process leads to better communication between various hierarchical levels and to decentralization within the organization favoring innovation. Wan et al. (2005) argue that communication and decentralization are the major antecedents of innovation processes.
The objective of this research is to investigate the impact of budgetary participation on innovation through communication and decentralization. Path analysis modeling was used to assess the relationship between budgetary participation and innovation through decentralization and communication.

This paper is organized as follows. Section 2 provides brief overview of the literature and states the relevant hypothesis. Section 3 specifies the research methodology. Section 4 discusses the results and Section 5 concludes.

**Literature Review and Hypotheses development**

**Budgetary participation, decentralization and innovation**

**Budgetary participation and decentralization**

Shields and Shields (1998) defined the budgetary participation as a process in which a manager is involved with, and has an influence on, the determination of his or her budget. They indicated that theoretical basis for why participative budgeting exists is primarily rooted in economics, psychological and sociological theories. These theoretical basis identify antecedent variables that are expected to be associated with the identified reasons why participative budgeting exists. Shields and Shields (1998) further assert that the underpinning of this research has been the contingency theory of organization, that predicts that the environment of an organization becomes uncertain, which requires that the organization adopts new flexible structure (decentralization). Thompson (1967) indicated that organizations which face heterogeneous and unstable environments should build decentralization into their structures. We propose that budgetary participation is a mechanism used by organizations to ensure decentralization. Bruns and Waterhouse (1975) indicated that managers in decentralized organizations perceive themselves as having more influence in the budget elaboration. In contrast, managers in centralized organizations are granted less responsibility, and report less involvement in budget planning. They concluded that the participative approaches during the preparation of the budgets are better adapted to the decentralized structures. Thereby, budgetary participation could be fulfilled only in decentralized structures. So, budgetary participation is used by organizations to ensure decentralization and consequently to face environmental uncertainty. Brownell (1982) asserts that participation offers organizational advantages, and organizations in unstable environments are adapted to participation of lower organizational members. Hence, budgetary participation is considered as a management tool which leads to decentralization. Our reasoning is consistent with Emmanuel et al. (1990) who argument that “participation is not a universal panacea, but can be selectively useful in helping promote commitment to organizational goals. It is perhaps useful in decentralized organizations (p175) (Gul et al. 1995).

Gul et al. (1995), Birnberg et al. (1990) and Sponem (2002) emphasized that the budgetary participation is essential to insure the decentralization. They underlined that budgetary participation is conceived to adapt the organization environmental changes that can modify the organizational structures. Birnberg et al., (1990) emphasized the importance of decentralization structure to facilitate the communication and the coordination among diverse hierarchical levels. This idea was supported by Sponem (2002), who indicated that in a decentralized organization, the budget process is more participative. In the same stream Gul et al., (1995) assert that the budgetary participation is often used in the decentralized structures because it returns these structures
more effectively to reach the main objectives within a volatile and uncertain environment. Nevertheless, Subramaniam and Mia (2001) considered the decentralized structure and budgetary participation as two common management control features adopted by organizations for motivating and assisting managers in their work performance.

Subsequently, this relationship was finally well established by Otley (1980) who advocates that decentralization and budgetary participation are interdependent and may interact to form an overall control package. Thus, it seems that the relation between budgetary participation and decentralization is not well defined. To investigate this relationship, this study hypothesizes that:

**Ha:** Budgetary participation is positively correlated with decentralization

### Decentralization and innovation

Aiken et al. (1980) indicated that bureaucratic organizations are often considered as static entities unable to adapt their self to volatile environment. To meet such challenge, firms need to be decentralized and innovative. Damanpour (1991) considered centralization as a crucial antecedent to innovation, as participation of the subordinates in the decision-making facilitates their awareness, their involvement and their commitment to meet business’s challenges by being innovative and generating new ideas. Similarly, Tremblay (2003) and Aiken et al. (1980) emphasize that decentralization has a positive effect on innovation, as operational units are often closer to the market and consumers needs. Therefore, their feedback and their participation in the decision process, including budget preparation, will enhance the organization’s reaction to the market expectation.

Damanpour and Gopalakrishnam (1998) identified four theories that can explain the relationship between organizational structure and innovation. The first theory called, the uni-dimensional theory, takes the innovation as a whole and consider it as one and unique dimension. Damanpour and Gopalakrishnam (1998) indicated that the association between centralization and innovation in the uni-dimensional theories should be negative. Nevertheless, Downs and Mohr (1976) have criticized this theory because of inconsistencies of results of research. In fact, the relationship between the structural complexity in an organization and the innovation was founded positive by Moch and Morse (1977), and negative by Blau and Mckingley (1979). However, Daft and Becker (1978) founded that structural complexity does not affect innovation. To explain this mitigation in results, innovation scholars have developed a second set of structural theories of innovation, which were called middle-range theories. Thus, the second theory, called the dual-core theory of innovation, distinguishes between administrative and technical innovations. Based on this theory, Damanpour and Gopalakrishnam (1998) predict that high centralization in decision making facilitates the top down process of administrative innovation. On the other hand, low centralization facilitates the bottom up process of technical innovation. The third theory, known by innovation radicalness, distinguishes between radical and incremental innovations. Based on this theory, high (low) centralization in decision making facilitates incremental (radical) innovation. Finally, the fourth theory, ambidextrous theory, focuses on the process of adoption of innovation and distinguishes between two stages in this process: initiation and implementation. Damanpour and Gopalakrishnam (1998) proposed that high (low) centralization in decision making facilitates initiation (implementation) of innovation. These authors reports the results founded by Damanpour (1991) for all these propositions which predict that the centralization affect negatively but not significantly all the dimensions of innovation. Damanpour and Gopalakrishnam (1998) explained these results by the need to consider the environmental change as a key factor that affect this relationship. Specifically,
they proposed to illustrate how the identification of environmental conditions will lead to a development of more precise structure-innovation relationships than those developed in the past. Finally, Wan et al. (2005) have proposed and founded that “greater decentralization of decision making is positively related to greater firm innovation”. Thus we hypothesize that:

**H.b:** Decentralization is positively correlated with innovation

**Budgetary participation, communication and innovation**

**Budgetary participation and communication**

Budgetary participation facilitates and develops a good communication channel within the organization. Economic and psychological theories have developed the antecedents of the budgetary participation. In fact, the economic theory assumes that a subordinate knows more about his task and task environment than does his or her superior. Thus budgetary participation will lead to gain information by the superior (Shields and Shields, 1998) and thereby communication and information sharing between superior and subordinates. The psychological theory, based on the cognitive mechanism assumes that the process of participation improves subordinate performance by increasing decisions quality as a result of the subordinate sharing information with superior (Shields and Shields, 1998).

Christensen (1982) and Magee (1982) advocated that subordinates are more aware than their superior(s) about market expectations and business environment. Thus, they consider that budgetary participation could be engaged by the superior(s) to gain information, communicate with subordinates and reduce environment’s uncertainty. In addition, Ronen and Livingstone (1975) emphasized that the budgetary participation enhances the cognitive mechanism by improving the quality of decisions through communication and sharing information between subordinates and superiors.

Scholars such as Shields and Shields (1998) and Fisher et al. (2000) confirm that budgetary participation has a positive effect on communication. They argue that when the superiors set the budget without involving their subordinates, there is a high risk that the budget will not be implemented. They also specify that in the absence of budgetary participation, there would be a lack of communication between seniors and subordinates that will lead top management unaware of various risks and opportunities surrounding the organization.

Ni et al. (2009) suggested that budgetary participation provides the communication opportunities between superiors and subordinates not only with improving managerial attitudes but also with enhancing managerial cognition, in turn improves their satisfaction and managerial performance. At same time, Kren (2003) proposed that behavioral theory researchers have proposed that budgetary participation allows positive communication between superiors and subordinates which reduce the pressure to create slack. Based on this theoretical background, we can assert that budgetary participation affects communication within the organization positively. Thus the following hypothesis is stated:

**H.c:** Budgetary participation is positively correlated with Communication

**Communication and innovation**

Developing communication channel within the organization promotes innovation. Aiken et Hage (1971) argue that internal communication within the organization favor innovation because it facilitates the dispersion of new ideas and increases diversity. Similarly, Wan et al. (2005) emphasized that the interaction among individuals within the organization leads to amplification and development of new knowledge. They proposed that the success of innovation requires exchange of knowledge and information among all stakeholders and
employees within the organization. Nevertheless, the empirical results didn’t support this assumption. In the same context, Tjosvold and McNeel (1988) recommended information sharing among all stakeholders within the organization as a precondition for improving innovation process.

Tremblay (2003) considered innovation as a complex and interactive process that transpires the need of communication and information sharing among all stakeholders. Engineers operating in research and development environment should be in a continuous and close contact with all stakeholders operating within the organization, particularly marketing and production staff. The focus on communication channel as a prerequisite of innovation was also underlined by Monge et al. (1992) who pointed out that several empirical studies have concluded that a higher level of communication and information gathering are associated with higher levels of performance in R&D and innovation in general. Similarly, Kanter (1982) claimed that the most innovative managers practice a participative management style in which information is requested from subordinates and shared among all stakeholders within the organization.

However, Aiken et al. (1980) and Katz and Tushment (1979) did not support the importance of communication toward creating innovative organizations. They consider high level of communication as a requirement to promote effective innovation only in presence of complex problems. Less complex problems do not involve high level of communication. These results were supported by several other scholars such as Hall (1962), Hage et al. (1971), Lawrence and Lorsch (1967), Duncan (1973) and Galbraith (1973). Hence, we hypothesize that:

**H.d:** The Communication is positively associated with innovation

Based on the previous arguments, this study investigates the relationship between budgetary participation and innovation through decentralization and communication that are presumed to mediate the relationship between budgetary participation and innovation. This leads us to state the following hypothesis:

**H1:** The budgetary participation has a positive effect on innovation via decentralization and communication.

![Diagram](Figure 1: Relationship between budgetary participation and innovation via communication)
Research Methodology

Measurement of Variables

Innovation

Multiple measures were used to measure the innovation in the literature. Monge et al. (1992) have measured the innovation as the total number of innovative ideas operationalized into the innovation system in each organization. However, given that the innovation process is a complex phenomenon, characterized by several phases, couldn’t be measured by only one item that is the total number of innovative ideas. This proxy is very simple and could integrate subjective answers.

To improve construct validity, Wan et al. (2005) measured firm innovation by using an 8 multiple item indexes. Such instrument considers a broad range of innovation indicators in order to capture the level of innovativeness in a firm. Yang et al. (2009) enhanced the instrument internal validity by integrating two major areas of innovation: (1) product innovation and (2) process innovation. Product innovation is concerned with generating new ideas and integrating them in the end product or service. Whereas process innovation represents changes in the way firms produce end products or services. Each area of innovation is represented by a multi-item scale. Respondents were asked to rate different aspects of innovation, which include 9 items, using seven-point Likert scales (Appendix 1). Yang et al. (2009) indicated that this method, as confirmed by other scholars, is used to minimize the bias from subjective answers and to emphasize construct validity. Considering the high validity of this instrument, it will be employed in this research, (Appendix 1).

Budgetary participation

Among the instruments that were used to measure the budgetary participation is one developed by Hofstede (1967), that uses an eight point, single choice scale. Another one developed by Merchant (1981) is composed of 3 items using seven point likert scale. In spite of the development of many instruments to measure this construct, this research will deploy the instrument developed by Milani (1975). This choice is justified by the high degree of validity and reliability of this instrument. Winata and Mia (2005) tested the reliability of this instrument and reported 0.89 alpha of Cronbach. We have tested the relevance of this instrument and found that the Chronbach’s alpha is equal to 0.9 (as shown in table 1). This confirms the validity of this measure. Respondents were asked to rate different aspects of budgetary participation, which include 6 items, using seven-point Likert scale, (Appendix 1).

Communication

Although many instruments were developed to measure this construct e.g., Monge et al. (1992), This research employs Evan and Black (1967) instrument that includes two items and each item is measured on five-point Likert scales, (Appendix 1). We believe that this measure is very suitable to our research. It includes questions that are related to communication between those who propose innovation and those who finally reviewed it,

Decentralization

Wan et al. (2005), Damanpour (1991), Kanter (1983) and Subramanian and Lilkanta (1996) used three likert scale items to measure the decentralization. However, Bacharach and Aiken (1977) measured decentralization by “examining the reported authority of organizational actors in making 18 strategic decisions”. Among these strategic decisions, there is budget decision, promotion decision and personnel decisions. Considering the large spectrum of this method, this research used Gorden and Narayan (1984) instrument that includes five classes
of decisions only. Respondents were asked to rate his/her degree of participation in each type of decision using seven-point Likert scales, (Appendix 1). This instrument was also employed by Subramaniam and Mia (2001).

**Sample and data collection**
Shields and Shields (1998) defined budgetary participation as the involvement of operational managers in the budgetary process and the extent of their influences on the final budgets. We suppose that the technical and the sales managers are the operational managers whose participation is required to create innovative environment within a firm. Technical managers are responsible to oversee the technical activity by managing scarce economic resources; while, sales managers are concerned of customers’ expectations and market competition. Thus, their participation in the budget process seems to be necessary for the improvement innovative environment within the company in order to gain competitive advantage and meet customers’ expectations.

To operationalize our theoretical framework, we empirically tested it via 35 Tunisian manufacturing firms that were randomly selected. The human resource manager of each company was directly contacted by the scholar and asked to provide the reference of the technical and the sale managers who could be interviewed for this research. We got access to 70 mangers: 35 technical managers and 35 marketing managers, who were directly interviewed by the scholar researchers. Table 1 and 2 provide information about the characteristics of our sample.

<table>
<thead>
<tr>
<th>Industrial sector</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agribusiness</td>
<td>12</td>
</tr>
<tr>
<td>Manufacture of construction products, ceramic and glass</td>
<td>5</td>
</tr>
<tr>
<td>Manufacture of mechanicals and basic metals</td>
<td>3</td>
</tr>
<tr>
<td>Manufacture of electric and electronic equipment</td>
<td>6</td>
</tr>
<tr>
<td>Manufacture of chemicals and chemical products</td>
<td>3</td>
</tr>
<tr>
<td>Manufacture of textile and wearing apparel</td>
<td>3</td>
</tr>
<tr>
<td>Other manufacturers</td>
<td>3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of companies</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>50 - 100</td>
</tr>
<tr>
<td>35</td>
<td>9</td>
</tr>
</tbody>
</table>

**Model specification**

The structural equation modeling was used to test the theoretical relationships as stated in our hypotheses. To answer the question how does budgetary participation combine with other variables such as communication and decentralization to affect innovation? (In a unified and integrated manner), this study used structural equation modeling (SEM). Path analysis modeling is employed to assess the linkage between budgetary participation and innovation through decentralization and communication, and their contribution to the overall relationship observed between budgetary participation and innovation.
The major benefit of path analysis is that it allows a decomposition of an observed relationship between two variables (in this case budgetary participation and innovation) into the portion attributable to paths through one or more measured variables (in this case communication and decentralization) posited as intervening between the two, and the portion which results either from a direct relationship between the two variables or from path through unobserved variables.

In figure 1 and 2, budgetary participation the exogenous variable in the model, is denoted as BP, decentralization as DEC, Communication as COM respectively, and innovation as INN. The path coefficients in the model are denoted $\alpha$, $\beta$ and $\beta'$. $\varepsilon$ denotes the unexplained portions of the endogenous variables decentralization, communication and innovation.

It should be noted that Barron and Kenny (1986) have presented four steps to examine the mediation. Firstly, we should establish that there is an effect between the independent variable (budgetary participation) and the dependent variable (Innovation). Thus, the first model that we will test is:

$$\text{INN} = \beta \text{BP} + \varepsilon_1$$

Secondly, we should show that the independent variable (Budgetary participation) affect significantly the mediator variables (Communication and decentralization). Thus, we should conduct a simple regression analysis with budgetary participation predicting communication and with budgetary participation predicting decentralization to test for path $\alpha_1$ and $\alpha_2$ respectively. So, the second and the third models are:

$$\text{DEC} = \alpha_1 \text{BP} + \varepsilon_2$$
$$\text{COM} = \alpha_2 \text{BP} + \varepsilon_3$$

Thirdly, we should demonstrate that the linkage between the mediator variable (communication and decentralization) and the dependent variable (Innovation) is significant. In this process, we should conduct a multiple regression analysis with budgetary participation, decentralization and communication predicting innovation. So our model is as below:

$$\text{INN} = \beta' \text{BP} + \alpha_3 \text{DEC} + \alpha_4 \text{COM} + \varepsilon_4$$

Finally, the direct effect between the dependent variable (Innovation) and the independent variable (budgetary participation) become insignificant by the introduction of the mediator variable (Communication and decentralization).

**Results Interpretation:**

Table 3 reports the descriptive statistics for the all variables and their items. This table shows the mode the median, the maximum and the minimum value for all the items and the Cronbach alpha for the measure of each variable.

<table>
<thead>
<tr>
<th>Table 3: Descriptive Statistics about variables and their items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variables</td>
</tr>
<tr>
<td>PB</td>
</tr>
<tr>
<td>PB2</td>
</tr>
<tr>
<td>PB3</td>
</tr>
<tr>
<td>PB4</td>
</tr>
<tr>
<td>PB5</td>
</tr>
</tbody>
</table>
The results confirm the validity of the proxy that we have used to measure the different variables (Cronbach’s alpha are higher than 0.6 which is the threshold stated by Nunnally (1978)). Principal Component analysis was employed to reduce items measuring each variable in one factor (see appendix 2).

As proposed by Baron and Kenny (1986), we examined the effect of the budgetary participation on innovation through communication and decentralization. Table 4 presents the results of the first step in which we will examine if the budgetary participation has a direct effect on innovation before introducing any mediator variables. Results show that there is a positive ($\beta = 0.257$) and significant (student test = 1.986 / p.value = 0.047 > 5%) effect of the budgetary participation on innovation before introducing the mediator variables. These results indicate that the first step was fulfilled as indicated by Baron and Kenny (1986).

**Table 4: Standardized Regression Weight**

<table>
<thead>
<tr>
<th>Estimate</th>
<th>S.E.</th>
<th>t.test</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation $\leftarrow$ BP</td>
<td>0.257**</td>
<td>0.117</td>
<td>1.986</td>
</tr>
</tbody>
</table>

**p < 0.05

Nevertheless the correlation coefficient between budgetary participation and innovation is very low (only 0.257) that can justify the reason to introduce mediator variables. Introduce the employment adding the mediator variables. After this step we examined the second one that conducts a simple regression analysis with budgetary participation predicting communication and decentralization as shown in Table 5.

**Table 5: Standardized Regression Weights**

<table>
<thead>
<tr>
<th>Estimate</th>
<th>S.E.</th>
<th>t.test</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEC $\leftarrow$ BP</td>
<td>0.738***</td>
<td>0.081</td>
<td>9.075</td>
</tr>
</tbody>
</table>
**H.a** predicts a positive relationship between budgetary participation and decentralization. As shown in table # 5, the coefficient is positive and significant ($\alpha_1 = 0.738/ p= 0.000$). Hence, **H.a** is confirmed. Thus, the second step proposed by Baron and Kenny (1986) was fulfilled for the decentralization as a mediator variable. **H.c** predicts, also, a positive relationship between budgetary participation and communication. However, we found a negative and significant relationship between these two variables ($\alpha_2 = -0.277/ p= 0.017$). In conclusion, **H.c** was rejected. Considering budgetary participation has a significant effect on the two mediators, the second step required by Baron and Kenny (1986) is fulfilled.

We examined the third step that predicted that the mediator variables (communication and decentralization) affect the innovation with the introduction in the model our independent variable (Budgetary participation). As shown in the fourth and fifth line in table 5, the decentralization affect positively and significantly innovation ($\alpha_3 = 0.472/ p= 0.056$). This result confirms H.b. On the other hand, communication that is the second mediator has a significant and negative effect on innovation ($\alpha_4 = -0.357/ p= 0.044$). Thus, H.d. is rejected. Regardless the sign founded between the budgetary participation and communication and between the communication and innovation, the relationship between these three variables still significant. Thus we can conclude that the third step proposed by Baron and Kenny was also operationalized.

Finally, the last step predicted that the relationship between innovation become insignificant by introducing decentralization and communication. To fulfill this phase, We should examine the third line in table 5 in conjunction with table 6 which reports the decomposition of budgetary participation’s effect on innovation through decentralization and communication.

**Table 6: Decomposition of the Effects in the Model:**

<table>
<thead>
<tr>
<th>Linkage</th>
<th>Direct</th>
<th>Indirect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>PB/DEC</td>
<td>0.738***</td>
<td>-</td>
<td>0.738</td>
</tr>
<tr>
<td>DEC/INN</td>
<td>0.472**</td>
<td>-</td>
<td>0.472</td>
</tr>
<tr>
<td>PB/INN</td>
<td>-0.205</td>
<td>0.447</td>
<td>0.139</td>
</tr>
<tr>
<td>PB/COM</td>
<td>-0.277***</td>
<td>-</td>
<td>-0.277</td>
</tr>
<tr>
<td>COM/INN</td>
<td>-0.357**</td>
<td>-</td>
<td>-0.357</td>
</tr>
</tbody>
</table>

*p < 0.1, **p < 0.05, ***p < 0.01

Based on table 6, we find a significant and positive effect between budgetary participation and decentralization and between decentralization and innovation. We also find a significant effect between budgetary participation and communication and between communication and innovation. With the introduction of the mediator variables, communication and decentralization, the direct effect between the budgetary participation and innovation becomes insignificant. However, the indirect effect between the participation and innovation is positive (0.447) and more important than the direct effect (-0.205). In conclusion, the budgetary participation affect positively and significantly innovation through communication.
and decentralization. These results allow us to confirm hypothesis (H1) which is the main one in this paper.

**Discussion, Conclusion and Managerial Implication**

The appropriation of the innovation by companies and identifying factors that influence the innovation process has attracted a particular interest in the literature. This deserves to be analyzed because the contemporary companies are operating in an environment that requires them to promote the sense of creation and the culture of innovation to survive. This research has examined the effect of the budgetary participation on innovation through its effect on communication and decentralization. The budgetary participation, like any other decision taken with a participative way, lead to communication between different hierarchical levels and to the decentralization that involves the increase of the satisfaction of employees and their commitment to respond to the expectations of the customers. These imply the commitment of the organization in the innovation process to satisfy the customers who became more and more requiring.

The current study confirms that budgetary participation, through its effect on communication and decentralization, enhances innovation. The budgetary participation affects positively and significantly decentralization which affect positively and significantly the innovation. These results support the findings of previous studies of Tremblay (2003) and Aiken et al. (1980); who indicate that decentralization has a positive effect on innovation and those because the operational units are often closer to the market and consumers needs. Thus, it seems appropriate to involve and participate them especially during the elaboration of the budget. The creation of new ideas, product or services requires the adoption of a decentralized structure and especially the participation of the managers in the budget preparation.

The most important and surprising finding had been the negative relationship between budgetary participation and communication and between communication and innovation. These results didn’t support what we have advanced in the literature review. Nevertheless, it was similar to the findings of Wan et al. (2005), who predicted that the communication will have a positive effect on innovation. However, the empirical results didn’t support their assumption. Our surprised result can be due to the use of the survey approach being known as a subjective one.

This research aims to contribute to enrich the literature about the effects of budget participation by analyzing its effect on innovation. We treated the direct and indirect effects of participation on innovation by introducing communication and decentralization as two intermediate variables.

**Limitations**

Despite the contributions of the current research, it has limitations that can be summarized as follows. The first limitation concerns the sample size. It is composed of only thirty five industrial firms. Thus, the results may not be generalized to all others companies across Tunisia. Further, the distribution of the survey was not random. In order to insure the managers’ collaboration, we were obliged to use our contacts across Tunisian corporate sector. Although the small size of the sample constitutes a limitation to this study, it could be justified by the lack of collaboration of companies in promoting research in emerging countries. This problem was recognized by Dakhli (2009) who examined the effect of budgetary participation on the job satisfaction across Tunisia who used a sample of only 75
managers in 30 industrial companies. On another hand, Shields and Shields (1998) have used, too, a sample of 60 managers.

**Future Research**

Tunisian context remains a land of many fields and prospects for future research. A replication of this work seems to be necessary in order to confirm or reject our results. It would be relevant to introduce others intermediate variables which could affect the relation between the budgetary participation and the innovation as motivation and the job satisfaction. Also, it will be interesting to use industrial sector as control variable.

**Appendix 1**

**Budgetary participation:** (Response anchors: 1= strongly disagree, 7= strongly agree).

Q1: To what extent do you get involved when your budget is set?
Q2: To what extent does your supervisor provide reasons when your budget is revised?
Q3: How often do you state your request, opinion and or suggestions about the budget to your superior without being asked?
Q4: How much influence do you feel you have on the final budget?
Q5: How do you view your contribution to the budget?
Q6: How often does your superior seek your request, opinions and suggestions when the budget is being set?

**Innovation:** (Response anchors: 1= strongly disagree, 7= strongly agree).

- **Product innovation**
  Q1: The level of newness (novelty) of your firm’s new products?
  Q2: The use of latest technological innovations in your new products?
  Q3: The speed of your firm's new product development?
  Q4: The number of new products that your firm has introduced to the market?
  Q5: The extent of your firm's new products that are first-to-market (or early market entrants)?

- **Process innovation**
  Q1: The technological competitiveness of your company?
  Q2: The speed with which your firm adopt the latest technological innovations in its processes?
  Q3: The updatedness or novelty of the technology used in your firm processes?
  Q4: The rate of change in your firm's processes, techniques and technology?

**Decentralization** (Response anchors: 1= strongly disagree, 7= strongly agree).
Q1: The extent to which authority has been delegated to you concerning the decision of the development of new products and services?
Q2: The extent to which authority has been delegated to you concerning the decision of purchasing of capital equipments?
Q3: The extent to which authority has been delegated to you concerning pricing's and distribution's of products and services decision?

**Communication** (Response anchors: 1= strongly disagree, 5= strongly agree).
Q1: Was there communication during the development stage between the staff man or team who prepared the proposal and those who finally reviewed the proposal?
Q2: Was there communication during the development stage between the staff man or team who prepared the written proposal and those who would be most directly affected by the proposal?

**Appendix 2: Principal Component analysis**

**Total variance explained**

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of squared loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of variance</td>
</tr>
<tr>
<td>BP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>.715</td>
<td>11.918</td>
</tr>
<tr>
<td>3</td>
<td>.486</td>
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<tr>
<td>4</td>
<td>.327</td>
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<td>5</td>
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</tr>
<tr>
<td>6</td>
<td>.129</td>
<td>2.145</td>
</tr>
<tr>
<td>IPD</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
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<td>68.929</td>
</tr>
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<tr>
<td>5</td>
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<tr>
<td>IPC</td>
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<td>1</td>
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<tr>
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<td>3</td>
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<td>4</td>
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<tr>
<td>DEC</td>
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</tr>
<tr>
<td>2</td>
<td>.448</td>
<td>22.393</td>
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</table>

Extraction Method : Principal Component analysis

The principal component analysis of the budgetary participation items gives one factor that explains 67.719% of the total variance. This factor is composed by all the six items as explained in component matrix presented below. This matrix contains component loadings, which are the correlations between the items and the factor. This interpretation is the same for all the others variables. For all the others variables, the principal component analysis gives only one factor which is composed as indicated in the next table.
## Component matrix

<table>
<thead>
<tr>
<th>Variables</th>
<th>Items</th>
<th>Component</th>
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<td></td>
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<tr>
<td></td>
<td>PB6</td>
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<tr>
<td>IPD</td>
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<tr>
<td></td>
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<td>C2</td>
<td>.881</td>
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</table>

Extraction Method: Principal Component analysis  

a. 1 components extracted.

## References


Kren, L. 2003. Effects of uncertainty, participation, and control system monitoring on the propensity to create budget slack and actual budget slack created.


Antecedents of Mass Customization and Customer Satisfaction: The Role of Co-Design Process

Abstract
Mass customization has received great interest among researchers. Although much of the research has been conducted by other authors from different angles, the satisfaction caused by mass customized products has not been covered to a satisfactory extent until now. This article apparently deals with this topic by focusing on how mass customized products cause customer satisfaction, which is defined as when product meets the needs of each individual customer with regard to certain product features. Specifically, this article investigates the influence of intention to purchase mass customized products on customer satisfaction. A set of competing hypotheses regarding these influences is developed and subsequently evaluated by....

Keywords: Mass Customization; Customer Intention, Co-Design, Customer Satisfaction

Introduction
Mass customization was first proposed by Toffler in 1970 and then defined by Davis in 1987 in the book Future Perfect. The objective of mass customization is to produce goods and services meeting individual customer’s needs with near mass production efficiency (Tseng and Jiao, 2001). Mass customization is a hybrid manufacturing concept existing to provide highly value added products. It is about delivering the desired product after the needs of an individual customer have been expressed (Piller, 2004). A standard product that bears certain flexibility, so that the retail or customers themselves can customize it, can be regarded as a mass customized product. In addition, providing a set of individual value added services around a standard product could also be regarded as a form of mass customization.

Several empirical studies evaluate the influence of MC on a variety of factors. However, to the best of our knowledge, few researches appear to exist on the influence of MC on consumer satisfaction. For example two studies determined that customers highly value the self-design experience and desire uniqueness in the result of their customization efforts. One study found which has not yet reached to results (Turner, 2009) with consumer expertise as a moderator factor on the relationship between Bundling options and Consumer satisfaction. Co-design is a key mass customization option, such that this option’s process must include focus not only on the product, but also on the customer experience. (Fiore, Lee & Kunz, 2004). Other study, (Schreier, M. (2006), Given the marketing definition of utility as the want-satisfying power of a product or service, Schreier’s test of MC utility for cell phones, t-
shirts and scarves confirmed that consumers are willing to pay a premium of 100% above the price for a standard version of a product to mass customize that product.

The main assumption of this article is that purchasing mass customized products leads to customer satisfaction. Using only factors relating only to the base category represents the intention, the co-design, and two factors moderating the relationship between the co-design and the customer satisfaction which are (awareness& knowledge).

This article investigates the influence of a customer’s intention to purchase mass customized products on the customer satisfaction.

A set of competing hypotheses regarding these influences is developed by stating that

1. Attitude has a positive effect on the customer intention to buy mass customized products.
2. Self-confidence has positive effect on customer’s intention to buy mass customized products.
3. Products aesthetics has positive effect on customer intention to buy mass customized products.
4. Customer intention to purchase customized products influences the co-design of the customized products.
5. Co-design of customized products leads to customer satisfaction.
6. High knowledge about product attributes positively affects the relationship between co-design in mass customization and customer satisfaction.
7. Low knowledge about product attributes negatively affects the relationship between co-design in mass customization and customer satisfaction.
8. High awareness about product attributes positively affects the relationship between co-design in mass customization and customer satisfaction.
9. Low awareness about product attributes negatively affects the relationship between co-design in mass customization and customer satisfaction.

The remainder of this article is structured as follows. The first section provides an overview of relevant literature in the area of mass customization, which supports the development of the competing hypotheses stated already. The statistical methods applied—as well as the results generated are then explained. The article concludes with a discussion of results as well as theoretical implications.

**Literature Review**

Mass customization can be defined as “Customer co-design process of products and services, which meet the needs of each individual customer with regard to certain product features. All operations are performed within a fixed solution space, characterized by stable but still flexible and responsive processes. As a result, the costs associated with customization allow for a price level that does not imply a switch in an upper market segment” (Piller 2005). This definition shows clearly that the customer is completely involved in the design process to get the product that meets his needs. And that leads us to the main objective of our research that customized products lead to customer satisfaction.

Mass customization was defined by Piller in 2004 “Customer co-design process of products and services, which meet the needs of each individual customer with regard to certain product features. All operations are performed within a fixed solution space, characterized by stable but still flexible and responsive processes. As a result, the costs associated with customization allow for a price level that does not imply a switch in an upper market segment.”
The thing that counts today is customer satisfaction. If the customer is not satisfied; he or she will stop doing business with this firm. All the things this firm to achieve quality and provide excellent service are not important at all if this firm doesn’t work to satisfy the customer. Several empirical studies evaluate the influence of MC on a variety of factors. However, to the best of our knowledge, few researches appear to exist on the influence of MC on consumer satisfaction. Two studies determined that customers highly value the self-design experience and desire uniqueness in the result of their customization efforts. This opens the gate for our study to build our frame work to assess how the mass customized products satisfy the customer. When customers customize goods, they determine the final configuration of features, thereby altering the aesthetic, symbolic, and performance-related benefits provided by the product (Addis and Holbrook 2001). As such, mass customization, from the customer perspective, is an active form of value-production through which consumers acquire mass produced goods that are more individualized than standard, off-the-shelf alternatives (Liechty, Venkatram and Cohen 2001). This study explores the relationship between the customer co-design for the customized product and the satisfaction results from this experience.

In recent times, the growing in buyer awareness has made buyers want to pay for their recognizable and constructive brand. This is evident that the consumers extend and always willing to acquire a product, so here the brand awareness is always a vital factor to manipulate the buying decisions and purchase intentions (Macdonald and Sharp, 2000). Brand awareness is essential in buying decision-making as it is important that consumers recall the brand in the context of a given specific product category, awareness increasing the probability that the brand will be a member of the consideration set. In low participation decision settings, a minimum level of brand awareness may be sufficient for the choice to be final. Awareness can also influence consumer decision making by affecting brand associations that form the brand image (Keller, 1998).

On the other hand, consumer product knowledge has been studied in a variety of different ways in recent years (e.g. Baker, Hunt and Scribner, 2002; Alba and Hutchinson, 2000; Brucks, 1986; Park, Mothersbaugh and Feick, 1994; Raju, Lonial and Mangold, 1995; Rao and Monroe, 1988). It has been recognized as a characteristic in consumer research that influences all phases in the decision process (Bettman and Park, 1980). Some stream suggests that simply having less knowledge can influence evaluation. Consumers commonly make decisions with incomplete knowledge about alternatives (Kivetz and Simonson 2000).

Again, as our research is measuring customer intention to purchase customized products in regards to customer satisfaction. We found that understanding intentions is foundational because it provides the interpretive matrix for deciding precisely what it is that someone is doing in the first place. When we talk about intention; we talk mainly about two theories: the theory of the planned behavior (Ajzen, 1985, 1991) which is the base on which we built our frame work. This theory is an extension of the theory of reasoned action (Ajzen & Fishbein, 1980; Fishbein & Ajzen, 1975). As a general rule, the stronger the intention to engage in a behavior, the more likely should be its performance. It should be clear, however, that a behavioral intention can be expressed in behavior only if the behavior in question is under volitional control, i.e., if the person can decide at will to perform or not perform the behavior.
This model is based on the Theory of the Planned Behavior. The antecedents of the customer intention have indeed a contributory influence. So, we controlled their confounding effects and considered them as controlling variables. (Uma Sekaran 2003).

Our framework contains different variables which we talk about:

1. Attitude toward mass customized products is important because mass customization is becoming increasingly important and it is an important aspect for understanding consumer behavior and consumer’s intention to purchase certain products. (David M. Hunt, 2006)

   In consumer behavior area, Ajzen and Fishbein’s attitude’s model has been widely accepted. Their model proposed two main factors which influence purchase intention, attitude and subjective norm.

2. We include perceived usefulness, defined as the extent to which a consumer believes that customized products will result in positive and functional outcomes. There are extensive evidences proving the significance of effect of perceived usefulness on adaptation intention (Chen and Barnes, 2007; Guriting and Ndubisi, 2006; Jaruwachirathanakul and Fink, 2005; Eriksson et al., 2005; Hu et al., 1999; Venkatesh, 2000; Venkatesh and Davis, 1996; Venkatesh and Morris, 1996). There are extensive evidences proving the significance of effect of perceived usefulness on adaptation intention (Chen and Barnes, 2007; Guriting and Ndubisi, 2006; Jaruwachirathanakul and Fink, 2005). Lee et al. (2006) found that perceived usefulness was a much more significant factor in enhancing consumers’ attitudes and behavioral intentions.

3. Bearden et al. (2001) introduced consumer self-confidence, defined as the extent to which a consumer feels capable and assured with respect to his or her marketplace decisions and behaviors. Self-confidence reflects two dimensions: One: decision-making self-confidence is the perception of the consumer of her or his/her ability to obtain and use information and to make good purchasing decisions. Zhongjun Tang, Jianghong Luo, Juan Xiao, 2011 found positive effect of self-confidence on consumer intention. While this relation is already supported in TPB.

4. Aesthetics is defined as the level of significance that visual aesthetics hold for a particular consumer in his or her relationships with products. The examples of Nike and Timbuk2 demonstrate that consumers’ co-creation activities can focus entirely on aesthetics.

   Increasing the extent of aesthetic MC positively affects the product’s self-expressive value, which in turn positively affects consumers’ intention to purchase the product. (Ruth Muggge, Frédéric F. Brunel, Jan P. L. Schoormans, 2012)

5. Theory of planned behavior explained the individual’s intention to perform a given behavior. The eventual goal of the Theory of Planned Behavior (T.P.B.) (Ajzen, 1985, 1991) is to explain how consumers can change their behavior and to predict intentional and deliberate behavior because behavior can be intentional and planned.

6. On the other hand, Thomas Aichner, 2012 in his latest article (THE ZERO MOMENT OF TRUTH IN MASS CUSTOMIZATION) has indicated clearly that there is significant Correlation between the willingness to customize and the product knowledge of customers.

7. As one of the main areas of our research problem is measuring the knowledge and awareness as one variable; we would highlight that they are absolutely different (starting from their definition). And we disagree with two researches done in 2002 & 2008 who stated clearly that the measurement of awareness and knowledge cannot be separated and agree with the study conducted in 2004 measured them separately.

8. MC allows consumers to co-design and co-create products that match their individual needs and requirements, and therefore, consumers are willing to pay a premium price for these mass-customized products (Franke et al., 2009; Schreier, 2006; Franke and Piller, 2004). Furthermore, consumers’ evaluation of MC is found to depend on the MC configurator (e.g., the number and levels of product components that can be customized) (Dellaert and Stremersch, 2005; Franke et al., 2008; Randall et al., 2007) and the characteristics of the consumer (Franke, et al., 2009; Kaplan et al., 2007).

9. Every marketing effort is to ensure the maximum customer satisfaction that leads to customer loyalty and continuation of the long-term relationship of the firm with the satisfied customers (Rust & Chung 2006). Several empirical studies evaluate the influence of MC on a variety of factors. However, to the best of our knowledge, few researches appear to exist on the influence of MC on consumer satisfaction (Turner 2009).

**Research Hypothesis**

In this study, Ten hypotheses were developed to test the relationship between Customer intention to purchase mass customized products and customer satisfaction. The independent variables consist of Customer Intention to purchase customized products, co-design. Whereas the dependent variable is customer satisfaction.

According to (Ajzen and Fishbein’s model, 1977) attitude has direct impact on purchase intention. Davis suggests that an individual’s attitude toward using a new system leads to the individual’s behavioral intention to use that system. Moreover, the theory of diffusion of innovations (Rogers, 1962) indicates that the positive or negative attitude toward the innovation would result in the more permanent adoption or rejection of the innovation. Therefore, based on the existing literature about attitudes toward a brand or product, attitudes toward intention the following hypothesis is proposed:

**H1:** Attitude has a positive effect on the customer intention to buy mass customized products.

Bearden et al. (2001) introduced consumer self-confidence, defined as the extent to which a consumer feels capable and assured with respect to his or her marketplace decisions and behaviors. Self-confidence reflects two dimensions. One, decision-making self-confidence, is a consumer’s perception of her or his ability to obtain and use information and to make good purchasing decisions. Another reflects a consumer’s perceived ability to protect her or him from being deceived or unfairly treated in a marketplace and is referred to as consumer protection. Before purchasing customized product, consumers undertake detailed analyses of their needs and translate into specific solutions without vendors’ assistance. Tang, Jianghong Luo, Juan Xiao, 2011 found positive effect of self-confidence on consumer intention, while this relation is already supported in TPB. Extending from the research in self-confidence, we can argue that:

**H2:** self-confidence has positive effect on customer’s intention to buy mass customized products

Aesthetics is defined as the level of significance that visual aesthetics hold for a particular consumer in his or her relationships with products. Mass customized goods allow consumers to specify the configuration of product attributes that ultimately shape both the performance-
related utilitarian benefits and appearance-related symbolic benefits of a product. Bloch, Brunel, and Arnold (2003) suggest that consumers differ in the degree to which visual product aesthetics are important and that those differences influence product category attitudes. These differences are captured in the concept of centrality of visual product aesthetics (CVPA). Based on the above we argue that:

**H3 Products aesthetics has positive effect on customer intention to buy mass customized products.**

Customer intention is considered as the main element that concern. Intention precedes action, and is itself preceded by emotions and motivations. It is defined as an individual’s readiness to perform a certain action. Intention directly precedes behavior. The intention incorporates attitude toward behavior, subjective norm, and perceived behavioral control (Ajzen, 1985, 1991, 2002). As mentioned before, our research frame work is built on the theory of the planned behavior which is an extension of the theory of reasoned action (Ajzen & Fishbein, 1980; Fishbein & Ajzen, 1975). Theory of planned behavior is the individual’s intention to perform a given behavior. Intentions are assumed to capture the motivational factors that influence a behavior; they are indications of how hard people are willing to try, of how much of an effort they are planning to exert, in order to perform the behavior. As a general rule, the stronger the intention to engage in a behavior, the more likely should be its performance. It should be clear, however, that a behavioral intention can find expression in behavior only if the behavior in question is under volitional control, i.e., if the person can decide at will to perform or not perform the behavior.

Based on the above and to the theory of the planned behavior which says that the intention performs the behavior; the following hypothesis can be formulated:

**H4: Customer intention to purchase mass customized products influences the co-design of the customized products.**

(Dallaert and Stremersch (2005) mentioned that customer enjoys the overall process of the customization. While (Kaplan, Andreas, 2007) concluded that it has frequently been stated that a customer’s return from adopting a mass-customized product is influenced not only by the value of the product itself but also by the experience made during the customization process. Mass customization by its very nature consists only of the customizable product offering, but of the co-design experience. This experience differs from purchasing a mass produced product as it requires engagement and participation in the creation process, it is this participation that changes the role of the customer from consumer of a product to a partner in a process of adding value (Reichwald R., Seifert S, Walcher D., & Piller F. 2004). Kaplan, Schoder and Haenlein (2007) identified two factors affecting whether consumers are likely to adopt mass customization: the value of the product itself and the experience acquired during the process. This study explores the relationship between the customer co-design for the customized product and the satisfaction results from this experience. Thus, we hypothesize the following:

**H5: Co-design of the customized products leads to customer satisfaction.**

Consumers with various levels of product knowledge differ in their perceptions of product attributes (Laroche, Bergeron and Goutaland 2003; Baker, Hunt and Scribner 2002; Blair and Innis 1996). Marks and Olson (1981) propose that consumers with higher levels of product knowledge have better developed and more complex, with well-formulated decision criteria. In the same vein, Kempf and Smith (1998) suggest that consumers with higher levels of
product knowledge are more diagnostic and better informed than those who have lower levels of product knowledge. Therefore, whenever the level of product knowledge a consumer holds is high, the chance there is that he/she will generate evaluation bias is less. Given these findings, the current research argues that, in the context of non-deceptive counterfeiting, consumers with higher levels of product knowledge are more likely to be able to evaluate products more accurately, due to their higher cognitive capacity. Previous research concerning consumer behavior has emphasized the importance of the relationship between product involvement and product knowledge (Lin, L.Y. and C.S. Chen, 2006), Park, C.W. and B.J. Moon, 2003)

**H6:** High knowledge about product attributes positively affects the relationship between co-design in mass customization and customer satisfaction.

**H7:** Low knowledge about product attributes negatively affects the relationship between co-design in mass customization and customer satisfaction.

(Nikolaus Franke, Martin Schreier, Ulrike Kaiser 2010) in their article (The “I Designed It Myself” Effect in Mass Customization) concluded that mere awareness of being the originator of the design created value for the subject. And at the same time (Macdonald and Sharp, 2000) found that the increase of buyer awareness has made buyers want to pay for their recognizable and constructive brand. Thus, it is important for businesses to create strain in their brands to be in better position than their competitors. This is evident that the consumers extend and always willing to acquire a product, so here the brand awareness is always a vital factor to manipulate the buying decisions and purchase intentions. Profitability performance tends to have positive relationship with product awareness. Profitability performance is a pecuniary input of brand to the revenue of the retailer. The fundamental reason is that superior craft of responsiveness will direct to be elevated buying behavior. Customers having no knowledge of the product will have no intention of buying it either. High brand awareness can affect the retailers or resellers purchase decision (Grewal, Monroe & Krishnan, 1998). This leads to the following hypothesis:

**H8:** High awareness about product attributes positively affects the relationship between co-design in mass customization and customer satisfaction.

**H9:** Low awareness about product attributes negatively affects the relationship between co-design in mass customization and customer satisfaction.
The Relationship between Information System quality and customer Equity management in service sector

Abstract

Marketing information system is an important tool that facilitates customer value. The purpose of this study was to examine the relationship between marketing information system quality (MKISQ) and customer value equity management management (CVEM) within banking sector. Results shows that the three dimensions of the MKISQ: information system quality, marketing orientation and support service quality Influence value equity management. This study contributes to the rare empirical investigation of the MKISQ and CVEM. The paper provides detail discussion, Imitations and suggestions for future research.

Keywords- marketing information system, customer equity, value equity management, Banking Sector

Introduction

In strategic marketing, information system is a valuable resource of the firm; information shares the concept of value with traditional resources. However, this value behaves uniquely, while land, labor and capital are traditionally hoarded to increase value and inhibit scarcity, information shared is commonly considered to enhance and increase its value (Oppenheim et. al., 2001). Since information is core to business success, Successful marketing practice must grab the dual challenges of marketing information and customer service (Barnes, 1993). Smart companies will gain a competitive advantage by improving the delivery of customer service through information technology (Burgetz, 1992). It had been documented that Information technology help companies provide more reliable service and glues relationship with customers. IT is an important tool in attaining the desired growth and competitiveness of today’s businesses, it may also constitute a major share of an organization’s capital investment (Alshawi et. al., 2003; Kumar, 2004; Huang et. al., 2006).

The present study uses a sample of senior marketing managers from Sudanese Banking sector to clarify the relationships between information system quality, and customer equity management. The study suggests that information system quality variables (system quality, information quality, marketing orientation quality and support service quality) influence customer value equity management management. The next section presents the literature review and research hypotheses of the study.

Literature Review and Research Hypotheses
In the process of transfer from product-centered thinking to customer centered thinking (Sheth et. al., 2000), customer equity is often presented as the basis for a marketing strategy, this strategy applied by a marketing information system. It is important to notice that the customer equity patterns that are based only on financial value aspect measurements do not reflect customer relationship value (Helm, 2004). However, Rust et. al., (2004a) suggested that marketing effort measurement methods using financial outcomes are calculated as customer equity alteration. Customer equity is determined by the frequency of purchasing a certain product category and by the average quantity of purchased products.

Holehonur et. al., (2007) found that product quality perceived by the customer is a driver that has a direct effect on equity management. In this view customer equity recognizes customers as a source of cash-flows and the majority of customer equity measurement models are not incidentally based on net present value calculation method, or used to measure customer life-time value (Villanueva and Hanssens, 2007). As each customer equity component has a different significance level in a certain market, an organization should identify the factors that have the highest effect on customer preferences (i.e. strong brand, product quality and price, long-term valuable relationship) and drive its marketing efforts in the right direction (Lemon et. al., 2001).

Rust et. al., (2001, 2002) divided customer equity model to value equity management (that influenced by quality, price, convenience). It has also been pointed out that, after spending huge amounts of money on customer relationship management technologies, some firms do not know how to manage customer relationships with these new databases, and have therefore achieved negative returns for their investments (Rigby et. al., 2002).

The quality of the results of organizational information network depends on the quality of the information. Information quality can be described by the following characteristics: relevance, timeliness, flow continuity, validity, accuracy, intelligibility, accessibility and visibility (Büyüközkan, 2004). The marketing information system contributes considerably and eases customer satisfaction (e.g. Lee et. al., 2003; Jeong, et. al., 2003), enhance the efficiency of service delivery (Kalliopi et al., 2010) and improve service quality, accordingly, customer loyalty (Lee et al, 2003). Service quality can increase customer loyalty, retention and improved business performance (Ennew and Binks, 1996). Firms with a deeply ingrained service quality orientation often develop an intrinsic reputation (Barney, 1991). In service marketing literature, the way customers are retained is to improve customer service quality and satisfaction (Berry and Parasuraman, 1991).

Regarding marketing orientation, many researchers stressed its role as one of the most crucial factors influencing marketing information system usage and effectiveness (Wierenga and Staelin, 1999). The adoption of marketing orientation facilitates each company's collection, processing, and diffusion of information, resulting in the company's knowledge of the customer's need (Kohli and Jaworski, 1990; Narver and Slater, 1990; Kalliopi et al., 2010).

Many banks have invested heavily in customer relationship management and data warehousing tools, but most financial entities still have a lot of work ahead of them to identify the information that is really relevant and use it effectively in customers value creation (Roig, Garcia, Tena, and Monzonis, 2006).
As a result, the customer-provider relationship has appeared to be a fundamental strategic focus for firms (Palmatier et al., 2006). This is clearly represented by the huge amount of money spent on customer relationship management programs, and the prominence placed on developing customer lifetime value (Cooil, Keiningham, Aksoy and Hsu, 2007). Based on the above discussions, the following hypotheses were generated:

**Hypothesis 1:** Marketing system quality is positively related to customer equity management (value equity management)

**Hypothesis 2:** Marketing system information quality is positively related to customer equity management (value equity management).

**Hypothesis 3:** Marketing system quality is positively related to customer equity management (value equity management)

**Hypothesis 4:** Marketing information support service system quality is positively related to customer equity management (value equity management).

**Research Method**

**Data and procedures**

In order to collect the data, the chosen scale items were translated from English into Arabic language to avoid translation errors and minimize loss or dilution of meaning. Further, a senior marketer with a good understanding of the aim of the study refined the construct measurements to suit with the banking context. To test the clarity and ambiguity in the instrument, a pilot study was administered with 25 senior marketers. The outcome of this pre-test was the revisions to some items. All questions were to be answered on a five-point Likert scale of agreement with statements containing the items, ranging from “strongly agree” to “strongly disagree”.

The survey sample consisted of 150 senior banking marketing managers in Sudanese banking sector, selected by purposive sampling. After elimination of those containing inaccurate or invalid answers the final returns yielded 118 usable questionnaires, which constitute a response rate of 79 percent. The questionnaire contains two sections: section one deal with the firm’s perception of marketing information system, while section two deals with value equity management.

**Measures**

All the measurements of variables used in this study were drawn from literature and were adapted for the context of this research. System quality is defined in terms of accuracy, process speed, quick response time, easy access, easy use, and friendly working environment (DeLone and McLean, 2004). The measurement used the scale included six items employed by (Kalliopi et. al., 2010). Information quality is defined as the information that marketing executives need in order to cover their specific needs and their quality, which in turn defines the type of marketing applications executives choose to use (Wierenga, 1999). Information quality measurement scale included eight items adapted from Bailey and Pearson (1983).

Marketing orientation is defined as the organization-wide generation of market intelligence and disseminating/responding to market intelligence across departments in the organization.
The Relationship between Information System quality and customer Equity management in service sector

(Jaworski & Kohli, 1993), the measured used were developed by Narver and Slater (1990), and Kohli and Jaworski (1990) specifically, the scale included 6 items referring to all six marketing orientation dimensions. Support service quality is defined as a fundamental requirement for a successful service business, and to generally a strong predictor of customer perceptions and loyalty (Zeithaml, Berry, and Parasuraman, 1996). This was measured by (Gounaris and Venetis, 2002) scale which allowed for the measurement of support service quality. The scale included 7 items. Value equity management is defined as the customer's objective assessment of the utility of a brand, based on perceptions of what is given up for and what is received (Rust, Zeithaml, and Lemon, 2000). It is measured as the quality, price and convenience to customer; the twelve items measuring customer equity were adopted from Rust et al, (2004).

Analyses and results

Descriptive statistics, factor analysis, reliability tests, correlation analysis, and regression analysis was used to analyze the data in this study. Table, one shows the demographic data of the respondents, most of the respondents were male and married with age of less than 50 years, majority are post graduated with experience of 20 years and more.

Table 1

General Characteristics of the Respondents ($N=118$)

<table>
<thead>
<tr>
<th>variable</th>
<th>Category</th>
<th>frequency</th>
<th>percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>less than 30</td>
<td>9</td>
<td>7.6</td>
</tr>
<tr>
<td></td>
<td>30 less than 40</td>
<td>26</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>40 less than 50</td>
<td>57</td>
<td>48.3</td>
</tr>
<tr>
<td></td>
<td>50 less than 60</td>
<td>26</td>
<td>22</td>
</tr>
<tr>
<td>Gender</td>
<td>Male</td>
<td>99</td>
<td>83.9</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>19</td>
<td>16.1</td>
</tr>
<tr>
<td>Marital status</td>
<td>Married</td>
<td>100</td>
<td>84.7</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>2</td>
<td>1.7</td>
</tr>
<tr>
<td>Educational level</td>
<td>Secondary</td>
<td>1</td>
<td>.8</td>
</tr>
<tr>
<td></td>
<td>Graduate</td>
<td>50</td>
<td>42.4</td>
</tr>
<tr>
<td></td>
<td>Postgraduate</td>
<td>67</td>
<td>56.8</td>
</tr>
<tr>
<td></td>
<td>10 less than 15 year</td>
<td>31</td>
<td>26.3</td>
</tr>
<tr>
<td>Experience</td>
<td>15 less than 20 year</td>
<td>37</td>
<td>31.4</td>
</tr>
<tr>
<td></td>
<td>20 and more</td>
<td>50</td>
<td>42.4</td>
</tr>
</tbody>
</table>

Goodness of measures

To ensure the goodness of measures, Factor Analysis was conducted, following the assumptions recommended by Hair, Anderson, Tatham, and Black, (2010). First, there must be sufficient number of statistically significant correlations in the matrix. Secondly, Kaiser-Meyer-Olkin measure of sampling adequacy should be at least 0.6. Thirdly, Bartlett’s test of sphere-city should be significant at 0.05. Fourthly, communalities of items should be greater than 0.50. Fifth, the minimum requirement of factor loading should be 0.50 (since the sample size of this study consist from 118 senior marketers mangers) based on a 0.05 significant level, with value of cross loading exceeds 0.50. Also to provide a simple
structure column for interpretation, the factors were subjected to Varimax rotation. Finally, Eigenvalues should be more than one for factor analysis extraction.

Factor analysis was done on the twenty-seven items, which was used to measure marketing information system constructs. Table (2) showed the summary of results of factor analysis on marketing information system. In the first run of factor analysis, items (INQ7 and SQ4) were found to have communalities less than 0.50. Items INQ7 and SQ4 was dropped in the subsequent run. In the subsequent run item SSQ3 showed communalities less than 0.50, and had been dropped in the subsequent run. An item SSQ4, SQ6, MRO1 and MRO2 was also showed cross loading, these Items was eliminated in the subsequent run. Finally, all assumptions were satisfactory fulfilled, all the remaining items had more than recommended value of at least 0.50 in MSA with KMO value of 0.91 (above the recommended minimum level of 0.60), and Bartlett’s test of sphericity is significant (p<.01). Thus, the items are appropriate for factor analysis.

Table (2) showed that the items for marketing information system loaded on four factors with Eigenvalues exceeding 1.0. These four factors explain 70.02% of variance in the data (above the recommended level of 0.60). All the remaining items also had the factor loading values above the minimum of 0.50, with value of cross loading less than .425. The first factor of marketing information system captures all the items of information quality and two items of system quality. Thus the factor one was renamed as information system quality. The second factor captures four items of marketing orientation, so this factor holds the original name marketing orientation. The third factor captures four items of support service quality. However, the original name of this factor was retained as it is, and finally one item of factors four was excluded for further analysis because it has only one single item.

As shown in Table1 factor loading of marketing information system items on the three factors ranged from 0.53 to 0.86. Thus, this study found that the marketing information system consists of three factors, namely; information system quality, marketing orientation quality, and support service quality.

**Table 2** Rotated factor loading for marketing information system

<table>
<thead>
<tr>
<th>Item</th>
<th>Information quality (IQ)</th>
<th>F 1</th>
<th>F 2</th>
<th>F3</th>
<th>F 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>IQ 1</td>
<td>bank information is clear</td>
<td>.842</td>
<td>.219</td>
<td>.137</td>
<td>.00</td>
</tr>
<tr>
<td>SQ 2</td>
<td>bank system is efficient</td>
<td>.813</td>
<td>.320</td>
<td>.106</td>
<td>.00</td>
</tr>
<tr>
<td>IQ 3</td>
<td>bank information is up to date</td>
<td>.801</td>
<td>.163</td>
<td>.281</td>
<td>.11</td>
</tr>
<tr>
<td>SQ 5</td>
<td>bank system has easy use</td>
<td>.785</td>
<td>.069</td>
<td>.074</td>
<td>.20</td>
</tr>
<tr>
<td>IQ 8</td>
<td>bank information has reliable and relevance</td>
<td>.780</td>
<td>.160</td>
<td>.256</td>
<td>.17</td>
</tr>
</tbody>
</table>
### The Relationship between Information System quality and customer Equity management in service sector

| **IQ 2** | bank information has format | .750 | .181 | .182 | .134 |
| **IQ 1** | bank system provides accurate information | .744 | .349 | .023 | .143 |
| **IQ 4** | bank information has timeliness | .735 | .275 | .328 | .103 |
| **IQ 6** | bank information has completeness | .727 | .268 | .273 | .129 |
| **IQ 5** | bank information has precision | .716 | .264 | .300 | .232 |
| **SQ 3** | bank system has quick response time | .709 | .294 | .136 | .024 |

#### Marketing orientation (MO)

| **MO 5** | MO comprises an intelligence collection. | .241 | .861 | .128 | .208 |
| **MO 6** | MO comprises response to intelligence | .268 | .856 | .141 | .250 |
| **MO 4** | MO comprises an intelligence collection | .314 | .820 | .205 | .156 |
| **MO 3** | MO comprises inter-functional coordination | .205 | .711 | .370 | .097 |
| **SQ 7** | service oriented culture enhances the service quality | .264 | .652 | .372 | .216 |
| **MO 2** | MO comprises competitor orientation. | .427 | .640 | .273 | .123 |
| **MO 1** | MO comprises customer orientation | .454 | .526 | .174 | .348 |

#### System service quality (SQ)

| **SQ 2** | training is claimed to be one of the essential features for improving quality | .178 | .178 | .736 | .013 |
| **SQ 3** | Teamwork is often seen as a means of supporting willingness to deliver service quality | .174 | .259 | .705 | .197 |
| **SQ 5** | Performance rewards gives directions to workforce | .281 | .425 | .614 | .159 |
| **SQ** | recruitment of the best possible personnel | .416 | .363 | .567 | .222 |
The Relationship between Information System quality and customer Equity management in service sector

Factor analysis was also done on the 12 items, which was used to measure value equity management. Table (3) showed the summary of results of factor analysis on value equity management. In the first run of factor analysis, item VEQ11 was found to have communalities less than 0.50, and it was dropped in the subsequent run. Also to provide a simple structure column for interpretation, the factors were subjected to Varimax rotation. Finally, all assumptions were satisfactorily fulfilled. Table 3 also shows that the items for value equity management loaded on two factors. These two factors explain 70.50% of variance in the data. The first factors of value equity management captures all the items of the value equity management except one, and second factor captures one item (VEQ3) and remaining one item does not reflect any reliability of value equity management. As shown in Table (3) factor loading of value equity management items on factor one ranged from 0.71 to 0.89. Thus, this study found that value equity management consists of twelve items.

Table 3 Rotated factor loading for value equity management management

<table>
<thead>
<tr>
<th>Item</th>
<th>F1</th>
<th>F2</th>
</tr>
</thead>
<tbody>
<tr>
<td>V E5</td>
<td>0.893</td>
<td>0.11</td>
</tr>
<tr>
<td>V E6</td>
<td>0.881</td>
<td>0.019</td>
</tr>
<tr>
<td>V E7</td>
<td>0.849</td>
<td>-</td>
</tr>
<tr>
<td>V E8</td>
<td>0.847</td>
<td>0.023</td>
</tr>
</tbody>
</table>
Reliability Analysis and Descriptive Statistics

Reliability is an assessment of the degree of consistency between multiple measurements of variables (Haire et. al., 2010). To test reliability, this study used Cronbach’s alpha as a diagnostic measure, which assesses the consistency of entire scale, since being the most widely used measure (Sharma, 2000). According to Hair et al. (2010), the lower limit for Cronbach’s alpha is 0.70. The results of the reliability analysis summarized in Table (4) confirmed that all the scales display a satisfactory level of reliability (Cronbach’s alpha exceeded the minimum value of 0.70). Therefore, it can be ended that the measures have acceptable level of reliability. Table (4) showed that the reliability coefficient for information system quality was 95.5, and for the marketing orientation was 93.7 followed by support service quality was 80.9. The reliability of value equity management dimension was 95.0. Thus, the model was reliable for the sample and above the acceptable level.

| VE1 | My bank found out from customers what service products or outcomes will be valued. | .840 | .00 9 |
| VE2 | my bank found out from customers what service delivery features can add to the value of our offering | .838 | .07 3 |
| VE0 | my bank investigates what customers will pay to get time, reduce effort, and add convenience. | .826 | .00 4 |
| VE4 | my bank engaged in marketing research to understand which definitions of value are relevant to our customers | .824 | .13 5 |
| VE1 | my bank asked our customers to articulate a complete list of their needs and requirements and paid attention to what they know | .732 | .26 6 |
| VE2 | my bank found out through marketing research what customers want more of the bank—whether they are willing to pay for it | .726 | .30 2 |
| VE9 | bank does not automatically assume that low price is what customers want | .709 | .05 2 |
| VE3 | my bank found out what customers give too much of (time or effort, for example that they would like to reduce the value | .002 | .94 2 |

Note: Variables loaded significantly on factor with Coefficient of at least 0.5, N= 118, **p< 0.01
Also, Table (4) also shows the means and standard deviations of the three components of marketing information system: information system quality, marketing orientation, and support service quality. The table reveals that the Sudanese banking industry banks emphasized more on information system quality (mean=3.93, standard deviation=0.78), followed by support service quality (mean=3.77, standard deviation=0.79), and the lowest is marketing orientation (mean=3.56, standard deviation=0.90). Therefore those three dimensions were achieved average score equal (3.76). Given that the scale used a 5-point scale (1=strongly disagree, 5=strongly agree), it can be concluded that Sudanese banking industry banks are highly of information system quality and support service quality above the average mean. On the other hand value equity management score (mean=3.47, standard deviation=0.76). A long side all means value above the assumed mean which equals 3.

**Table 4**

Reliability and descriptive analysis for study variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>No. of items</th>
<th>Cronbach’s alpha</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information system quality</td>
<td>11</td>
<td>.955</td>
<td>3.9302</td>
<td>.78347</td>
</tr>
<tr>
<td>Marketing orientation</td>
<td>4</td>
<td>.937</td>
<td>3.5627</td>
<td>.90430</td>
</tr>
<tr>
<td>Support service quality</td>
<td>4</td>
<td>.809</td>
<td>3.7735</td>
<td>.79494</td>
</tr>
<tr>
<td>Value equity management</td>
<td>11</td>
<td>.950</td>
<td>3.4702</td>
<td>.76437</td>
</tr>
</tbody>
</table>

*Note:* All variables used a 5 point likert scale with (1= strongly disagree, 5= strongly agree)

**Correlation Analysis**

Table (5) presents the results of the intercorrelation between the variables. The correlation analysis was conducted to see the initial picture of the interrelationships between the variables under the study. Therefore, the importance of conducting correlation analysis is to identify any potential problems associated with multicollinearity. Table (5) represents the correlation matrix for the constructs operationalized in this study. These bivariate correlations allow for preliminary inspection and information regarding hypothesized relationships. Besides that, correlation matrix gives information regarding test for the presence of multicollinearity. The table shows that no correlations near 1.0 (or approaching 0.8 or 0.9) were detected, which show that multicollinearity is not a significant problem in this particular data set.

Table (5) shows that information system quality, marketing orientation and support service quality are positively and significantly correlated with Value equity management (r = .598, p–value < 0.01), (r = .611, p–value < 0.01), (r = .556, p–value < 0.01) respectively. This table provides a strong indication of association, to undertake a more complete examination of the proposed relationships and to evaluate whether such associations are direct or indirect, multi regression test was conducted. The next section of the analysis is testing the hypotheses.
Table 5

Correlations among the all study variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>INQ11</th>
<th>MO12</th>
<th>SSQ13</th>
<th>VE11</th>
</tr>
</thead>
<tbody>
<tr>
<td>INQ11 Information system quality</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MO12 Marketing orientation quality</td>
<td>.585**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSQ13 Support service quality</td>
<td>.610**</td>
<td>.627**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>VE11 Value equity management</td>
<td>.598**</td>
<td>.611**</td>
<td>.556**</td>
<td>1</td>
</tr>
</tbody>
</table>

Notes: Level of significant: **p<0.01, N= 117

Hypotheses Testing

This section discusses the results of hypotheses of the study on the light of the new emerged variable from factor analysis; there are three hypotheses in this study. to perform regression analysis for hypothesis testing, it is generally agreed that there are at least five assumptions (normality, linearity, multicollinearity, homoscedasticity, and outliers) should be met. The results of testing these assumptions are fulfilled.

The Relationship between Marketing Information System and Value equity management

Table (6) shows the results of the multiple regression equation testing the influence of the marketing information system variables on value equity management. The result shows that the marketing information system variables explained 48% of the variance in value equity management. In addition the results show that the three component of marketing information system is significantly influenced value equity management. The results showed that the hypothesis were supported. The results also showed that marketing orientation have the most significant affect on value equity management (ß=0.329, p<0.01), followed by information system quality (ß=0.305, p<0.01), and support service quality (ß=0.166, p<0.10). These results give support to hypotheses H1. (Information system quality and value equity management), H2. (Marketing orientation quality and value equity management), and H3. (Support service quality and value equity management).

Table 6 The relationships between marketing information system and value equity management

<table>
<thead>
<tr>
<th>Variables</th>
<th>Std. Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model variables:</td>
<td></td>
</tr>
<tr>
<td>Information system quality</td>
<td>.305**</td>
</tr>
<tr>
<td>Marketing orientation</td>
<td>.329**</td>
</tr>
<tr>
<td>Support service quality</td>
<td>.166*</td>
</tr>
<tr>
<td>F value</td>
<td>34.194</td>
</tr>
<tr>
<td>R²</td>
<td>.476</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>.462</td>
</tr>
<tr>
<td>R² change</td>
<td>.476</td>
</tr>
<tr>
<td>F change</td>
<td>34.194**</td>
</tr>
</tbody>
</table>

Note: Level of significant: *p<0.10, **p<0.01
Discussion

Marketing information system has been hypothesized to have significant and positive impact on value equity management. The outcomes of this study point that information system quality, marketing orientation, and support service quality are positively related to value equity management. Maguire and Ojiako, (2008), reports of the failure of information systems and technology (IS&T) projects was set up driven by several factors, including poor project management and a lack of understanding of how systems can negatively affect organizations and customer relationships.

The findings of this research, in general, provide support for the affirmation made by scholars (Kim and Lennon, 2010). The effectiveness of marketing information system is set up to compose both internal and external components, related on the one hand to the lengthening to which the user organization improves functional effectiveness and corporate climate and on the other to its adaptability to market conditions and its customer responsiveness. More particularly, marketing information system could contribute to the proper identification of consumer needs and, as an outcome, help to cultivate a more satisfied and loyal customer (Chatzipanagiotou, and Coritos, 2010). Moreover, given that marketing information system is valuable and rare organizational resources, the findings supported the resource-based view theory (Barney, 1991), which states that firm with such resources will often be strategic innovators.

The outcomes show that the marketing orientation has positively significant impact on value equity management. This result support previous research, which set up that applying computer models to consumer data to attract new customers, Retain existing customers, make more loans and attract more deposits (e.g., Borowsky, 1994, United States Banker, 1993; Nelson, 1999). Banks are in an excellent position to use database marketing programs since they have good information on customers’ income, lifestyle and product usage, Nelson, 1999). Customer needs can be met more effectively with the assistance of technology (Amarvadi et. al, 1995).

The outcomes of the study showed that support service quality has a positive impact on value equity management. This concurs with prior studies, which emphasize the valuable role of system support service quality. An effective marketing information system support can help improve customer service directly, as a part of the product itself, or indirectly through increased responsiveness to customer needs O'Brien et al, (1995). A system which is customer-led not only eliminates the possibility of sending duplicate mail shots to account-holders but more importantly provides a platform for segmentation and targeting, and assessing the “lifetime value” of customers (Petrisson et al., 1993). The move towards IT-based marketing information systems will upgrade the quality of internal and external communication flows and ease better communication within organizations (Saaksjarvi and Talvinen, 1993).

Other authors coincided that Improvements in customer service is being made possible by an underlying network of information technology (Austin, 1992). Since such systems have important strategic implications (O'Brien et al., 1995), that influence both the company's external and internal environment (Xianzhong, 1999). The another valuable benefit of IT-based marketing information system is the ability to monitor a company's market environment more effectively, specifically with respect to customer relations, and to help managers and salespeople in meeting their marketing aims. Equally valuable is the
contribution of marketing information system to improving the effectiveness and the efficiency of the marketing and communication efforts (Cassie, 1997). During the exchange process, with the help of technology tools, sales people alter increasing amounts of data into a functional form that can be transferred to customers in a systematic way (Hunter and Perreault, 2006). The provider of the system support service is responsible for both designing and installing the marketing information system, as well as for ensuring its operational readiness (Chatzipanagiotou and Coritos, 2010).

The philosophy behind these outcomes is that intelligent marketing information systems can offer a way for marketing managers to share knowledge and expertise. Such sharing could help improve the economics and effectiveness of the marketing function, which is ultimately reflected in the marketing information system success of a bank's.

**Implications of the Study**

The current study has supported the present knowledge on business value of marketing information system within the field of banking industry. The first theoretical contribution is related to the marketing information system three component instead of four by concentrated on value equity management. The second theoretical contribution focus on the positive relationship between marketing information system and value equity management drivers (non-financial measures). The third theoretical contribution of this research adds to the resource-based view approach. Particularly, the outcomes of this study represent that marketing information system is a resource, which is substantial determinant of customer equity in the form of value equity management.

The fourth theoretical contribution this research set up that the three components of marketing information system do not equally contribute to value equity management. While two components of marketing information system (information system quality and marketing orientation) have significant positive impact on a proportion of value equity management, support service quality has the only positive impact on value equity management.

For managerial implication, this study contributes towards management practice, three managerial levels that concerning marketing information system can gain benefits or advantages from information taken out within these findings. For top management level, the marketing information system provides marketing environment information for strategic decision support. At the tactical or middle level management provides functional information, such as that related to price, quality and convenience. However, the lower-level provides information that is used directly to increase customer service and communication. It is worth mentioning that in this study each of the components of marketing information system found to be significantly with bank's customer value equity management.

**Limitations and Suggestions for Future Research**

The outcomes of this study must be interpreted with caution because of some certain limitations. First, while the research sample adequately meets the acceptable statistical standards, as well as demonstrates sufficient construct, internal and external validity, its inclusiveness of the Sudanese Banking sector is potentially limits its generalizability to other industry contexts such as the manufacture sector. Second, this research investigates the relationship between marketing information system and value equity management across banking industry. Third, the cross-sectional nature of the research and no control
variable introduced is an obvious limitation of this study. Finally the converging outcomes from the multiple regressions' analysis, it can be deducing that marketing information system can be used to explain the customer equity variation among Sudanese banking industry. The regression analysis outcomes (R²-values) suggest that a high percentage of this variation is still unexplained.

This research represents an attempt to build and test a theoretical framework of marketing information system and value equity management. However, based on the limitations mentioned above, this research provides some propositions for future research. These suggestions are as follows: First, future studies can replicate this research using larger sample and dissimilar contexts such as dissimilar sectors or countries.

Marketing orientation and support service quality scale contains only four items, while there are many others that might be used to capture marketing orientation or support service quality constructs. Therefore, this warrants further research.

The results showed insignificant relationships between support service quality and value equity management. This suggests that the characteristics of the organizational variable may moderate this relationship. Further research is needed to investigate such relationships. Finally, the R² value in this study is 0.48 for the direct relationships between marketing information system and value equity management. In general, there are many factors, not just marketing information system, that locate value equity management. One imaginable factor is marketing strategies such as competitor oriented strategies. Further studies should introduce such factors.

Conclusions

This research is an attempt to enhance the understanding of the value equity management concept. On the other hand, this research tried to test the relationship between marketing information system and value equity management, expressing the role that key components of marketing information system play in that relationship. The present research was run among 31 banks affiliated with the Central Bank of Sudan. This research provided empirical evidence that marketing information system can lead Sudanese banks to sustainable competitive advantage in terms of value equity management drivers.

References


Employer Wellness Programs’ “Carrots” and “Sticks”

Abstract

Employers today are rightfully concerned with dramatically increasing healthcare costs, surely to be exacerbated by the implementation in the U.S. of the Affordable Care Act (aka “Obama Care”) in January of 2014. Consequently, in an effort to reduce healthcare costs, many employers have adopted wellness programs in the workplace in order to encourage their employees to become and to remain healthy. Many of these programs utilize an incentive-based “carrot” approach; but also some employers, who are not satisfied with the results of voluntary wellness programs, are imposing the “stick,” that is, imposing penalties in the form of health insurance surcharges and other penalties, for employees who do not participate in wellness programs and/or do not meet certain healthcare standards.

This article, accordingly, discusses examples and trends regarding wellness programs in the workplace. The authors offer practical recommendations for employees to stay healthy. Suggestions for self-motivation, goal-setting, and becoming healthier are provided. Also, recommendations to managers are made so they can create a “wellness culture” in the workplace for their employees, since such a positive culture can lessen stress, enhance morale, promote healthier lifestyles, and, significantly reduce healthcare costs for the employer. The authors underscore the importance of creating a comprehensive, incentive-based, wellness program in the workplace. The ultimate objective is for the employees to become cognizant of their health, reduce their medical risks, take control over their own health, and thus, in essence, to help reduce their own healthcare costs.

Key words: Wellness, health, healthcare costs, stress management, goal-setting, fitness, exercise.

The Costs of Being Unhealthy

It is estimated that one in four people in the United States aged 18 years and older are defined as obese. So, around 66 million Americans are obese, which means they approximately 30 pounds over their ideal weight. Consequently, about 30% of the adults in the U.S. have high blood pressure; and almost 10% has diabetes. Obesity increases healthcare expenditures for employers by $1,723 per year per person (Stafford, 2013, p. B10; Mujtaba and Cavico, 2013, p.1).

The average cost to treat illness and chronic disease caused by inactive lifestyles is about $1,000 per year for every family in America. Simply getting some moderate physical activity, such as a brisk walk, at least five times a week, can have significant health benefits, such as lowering the risk of developing, or dying from, cardiovascular disease, hypertension or Type 2 diabetes, as well as improving the health of muscles, bones, and joints (Mujtaba and
Therefore, wellness has become an important concern for modern organizations because stress has rapidly increased and so has the cost of not being healthy. Many firms as a result are now encouraging their employees to join wellness programs so they can remain healthy. A good wellness program provides the natural means of effectively dealing with the stresses of the modern life. Experts estimate that stress accounts for about 80% of all illnesses and diseases for human beings. Many estimate that stress is the number one killer of people in the United States. During any prolonged stressful event, the body is often alarmed, and consequently one usually either fights it or abandons it. As part of the adaptation process, the body might resist the stresses imposed upon it. Finally, prolonged stresses can lead to exhaustion of the body; and this condition leaves a person at high risk for hosting illnesses (Mujtaba and McCartney, 2010). As presented in Table 1, there are many elements to this healthcare and wellness discussion but the main points are that inactivity can increase the cost of healthcare for a company, while good health can lead to productivity, longevity and a better quality of life. In the workplace, wellness programs can help employees better manage their levels of stress through exercise, satisfactory quality of life, better eating habits, and socializing with others (Mujtaba and Cavico, 2013).

### Table 1 – Fitness and Healthcare Elements and Statistics

<table>
<thead>
<tr>
<th>ELEMENTS</th>
<th>WELLNESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of healthcare</td>
<td>Obesity increases Americans’ healthcare expenditures by $1,723 per year per person. The cumulative indirect illness-related losses associated with chronic disease often total over $1 trillion compared with $277 billion in direct healthcare expenditures.</td>
</tr>
<tr>
<td>Inactivity</td>
<td>The cost to treat illness and chronic disease caused by inactive lifestyles is nearly $1,000 for every family per year.</td>
</tr>
<tr>
<td>Chronic illnesses</td>
<td>There are about 58 million working adults with chronic illnesses. Chronic diseases have become a “major burden” in the U.S., accounting for severe disability in 25 million people.</td>
</tr>
<tr>
<td>Surcharge for smoking</td>
<td>Wal-Mart imposed a $2000 surcharge for smokers. Tobacco users typically consume approximately 25% more healthcare services than non-tobacco users.</td>
</tr>
<tr>
<td>Surcharge for failure to undergo health screenings</td>
<td>CVS Caremark requires its 200,000 employees to undergo screenings to record their weight, body fat, blood glucose, and blood pressure levels; and if they fail to do so they will pay an extra $600 for health insurance.</td>
</tr>
<tr>
<td>Surcharge for “thick” waistlines</td>
<td>Michelin North America, employees with “thick” waistlines (over 40 inches for men, 35 for women) will have to pay up to $1000 per year more in health premiums.</td>
</tr>
<tr>
<td>Penalty for not examining non-surgical options</td>
<td>Honeywell International imposes a $1000 penalty for employees who undergo certain joint-replacement or back surgeries without first participating in a program that provides information on alternative non-surgical options.</td>
</tr>
<tr>
<td>Tobacco usage and death</td>
<td>About 40% (900,000 deaths each year) of all deaths in the U.S. are premature and are often due to unhealthy or sedentary lifestyles such as tobacco usage, improper diet, misuse of alcohol and drugs, accidents, etc.</td>
</tr>
<tr>
<td>Employers with wellness</td>
<td>Over 90% of employers with 200 or more employees offer some type of a wellness program.</td>
</tr>
<tr>
<td>Wellness programs with sanctions</td>
<td>About 20% of firms impose negative consequences on employees if they do not utilize health-awareness tools the companies provide.</td>
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<td>----------------------------------</td>
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</tr>
<tr>
<td>Future programs with sanctions</td>
<td>About 60% of employers plan to impose penalties in the next three to five years for employees who do not improve their health.</td>
</tr>
<tr>
<td>Wellness and longevity</td>
<td>People with healthier lifestyles are expected to live an average of six to nine years longer.</td>
</tr>
</tbody>
</table>

Employers, of course, have the discretion in formulating wellness programs. Some programs focus on employees with specific health problems, such as heart disease or diabetes. Others take the form of incentives to the employees to undergo physical examinations or to take health assessments as well as incentives to lose weight and stop smoking. All these programs have an educational component that seeks to inculcate to the employees the benefits of a healthy lifestyle, and thus to increase awareness of how lifestyle choices can impact one’s physical and mental health. Common features of wellness programs can encompass the following: providing healthcare and medical information by means of health fairs, seminars, classes, lectures, and newsletters; online health and wellness resources; nutrition counseling; lifestyle and risk factor analysis; health and exercise coaching; gym and health-club memberships or membership discounts; health risk assessments; stress management programs; disease management and control programs (concerning heart disease, diabetes, blood pressure, for example); biometric testing and screening, maintenance, and control for heart disease, blood pressure, hypertension, cholesterol, and weight loss; smoking cessation programs; and immunization programs; and onsite clinics. All these programs are created to help employees become healthier through various incentives and penalties. As such, this paper provides a review of wellness programs along with some suggestions for managers of all firms.

“Carrots” Or “Sticks”? 
Employers are concerned about the rising healthcare costs and the legal ramifications of implementing wellness programs. For example, an employee may have a legally recognized addiction to nicotine, or a medical or genetic condition causing him or her to be overweight or obese. Employees may be suffering from health problems that they truly cannot control. Consequently, serious legal and moral issues arise when the employer implements a wellness program, especially one with a coercive element. For example, many firms are now asking workers to submit their health status numbers regarding such things as their smoking habits, alcohol consumption, body weight, blood pressure, cholesterol level, and waist circumference which can then be used to either reward them with some “carrots” or penalize them with “sticks”.

Wellness program have become fairly common in the American workplace (Schnyer, and Von Busum, 2012, p. 5). It is reported that 92% of employers with 200 or more employees offered wellness programs in 2009. Mattke, Schnyer, and Von Busum (2012, p. 9) vividly illustrate how people in the U.S. “are in the midst of a ‘lifestyle disease’ epidemic,” to wit:

- The Centers for Disease Control and Prevention (CDC) has identified four behaviors that are the primary causes of chronic disease in the United States – inactivity, poor nutrition, tobacco use, and frequent alcohol consumption; and these activities are causing an “increasing prevalence” of diabetes, heart disease, and chronic pulmonary conditions.
Chronic diseases have become a “major burden” in the U.S. leading to “decreased quality of life,” accounting for severe disability in 25 million people in the U.S., as well as being the leading cause of death, claiming 1.7 million lives per year.

Treating chronic disease is estimated to account for over 75% of national health expenditures.

The number of working-age adults with a chronic condition has grown by 25% in ten years, nearly equaling 58 million people.

A 2008 PricewaterhouseCoopers survey found that the “indirect” costs (for example, missed days at work) were approximately four times higher for people with chronic diseases compared to healthy people.

A report by the Milken Institute indicated that in 2003 the cumulative indirect illness-related losses associated with chronic disease totaled $1 trillion compared with $277 billion in direct healthcare expenditures (Mujtaba and Cavico, 2013, p. 3).

Another “carrot” approach used by employers is to reward employees who are effectively dealing with chronic problems. For example, employers can reduce premiums for overweight employees who regularly exercise in a gym or who meet certain weight loss goals. However, Dorschner (2011) related that Baptist Health and other “carrot” approach employers may now believe that the “carrot” is not enough since healthcare costs have continued to rise. Consequently, some companies are now also taking a “stick” or penalty approach to motivate employees to be more healthy people. One typical “stick” approach is to require that employees with “unhealthy” lifestyles and habits to pay more for insurance. Dorschner (2011) reported on a survey of 600 major companies by a national consulting firm that found that 33% were planning in 2012, or later, to reward or penalize employees based on targets for such issues as weight or cholesterol levels. Abelson (2011) noted that about one-third of employers with 500 or more employees are trying to encourage employee into wellness programs by offering them financial incentives, for example, discounts on insurance.

Moreover, the New York Times (Abelson, 2011) pointed to a survey that indicated that wellness policies that impose financial penalties on employees have doubled to 19% of the 248 major companies in the survey. Wal-Mart was given as a prime example since it imposed a $2000 surcharge for some smokers. The reason for the “more stick, less carrot” approach is that employers are very concerned about rising healthcare costs and thus are demanding that employees who smoke or who are overweight or have high cholesterol carry a greater share of their healthcare costs. In the case of Wal-Mart, Abelson (2011) noted that its decision to impose the high amount on smokers was “unusual” since it was much higher than the customary charges of a few hundred dollars a year that most other employers impose on their smoking employees. The only way for the smoking employees of Wal-Mart to avoid the surcharge was to attest that their doctor said it would be medically inadvisable or impossible for the employee to stop smoking. Wal-Mart’s main rationale for the smoking surcharge is that tobacco users typically consume approximately 25% more healthcare services than non-tobacco users. In order to qualify for the lower premiums an employee must have stopped smoking; but Wal-Mart does offer an anti-smoking program. Home Depot charges smoking employees $20 a month and PepsiCo requires employees who smoke to pay $600 a year more than non-smokers unless the employees complete a smoke-cessation program. Abelson (2011) also reported on another employer, Indiana University Health, a large health system, where employees who meet weight targets can receive $720 a year of the cost of their insurance. However, employees who cannot meet weight goals can still be eligible for lower premiums if a doctor states that the employee has a medical condition that makes the weight targets unreasonable to achieve.
It is apparent that employers would naturally encourage their employees to be healthy, since a healthy employee is a productive employee, and also in order to reduce healthcare and insurance costs (Mujtaba and Cavico, 2013). However, employers “merely” encouraging their employees to be healthy may not produce the desired objective. So, as reported in the Wall Street Journal (Mathews, 2009), some companies are “forcing” their employees to be and to stay healthy. Mathews (2009) provided one example of a company, called AmeriGas Propane, Inc., a nationwide propane distributor based in Valley Forge, Pennsylvania, that gave their employees an ultimatum: get regular medical checkups or lose your health insurance. Mathews (2009) related that the company’s primary reason for this ultimatum was that the company had undergone several years of steep increases in the cost of health insurance coverage for its approximately 6000 employees. The company’s workforce was not only aging; but also many of the employees had unhealthy habits. The average age of the employees was 46 years and about 44% were smokers. Moreover, many of the employees were not getting tests or preventive care that could help them avoid cancer, diabetes, and heart attacks. The company had tried several “wellness” programs to encourage healthy habits by employees, but these programs were optional, and were unsuccessful. So, the company then mandated that all employees would have to get physical exams, blood-pressure checks, cholesterol tests, and blood-sugar tests. Women over 40 years of age, in addition, were required to get Pap smears and mammograms. The employees and their covered spouses would have one year to complete the tests, which are 100% covered by their insurance. All the tests and checkups were not only free, but the company’s plan also did not charge for generic drugs for diabetes, blood pressure, asthma, and cholesterol. Co-payments were also reduced for brand name medications for the aforementioned conditions. However, if the employees did not get the check-ups and tests, they would lose their insurance. Furthermore, the employees would need to keep on getting the checkups at least every two years in order to retain their health benefits. Mathews (2009) reported that one employee, age 41, was originally skeptical of the program; but he did get a checkup and realized he had high “bad” cholesterol, which he deemed to be a “very good wake-up call,” resulting in him dieting and exercising and losing 36 pounds. Another employee stated that he had always avoided doctors, and at first he was “shocked” by the program, and considered it an invasion of his privacy, but nonetheless he got the required check-up and found out that he was healthy; and now he says the mandate was a good idea because otherwise he never would have gotten the check-up. Another employee, a 63 year old woman, took the mandatory mammogram and discovered that she had breast cancer; yet if the test was not mandatory, she stated that she would have put it off for several months; thus delaying the diagnosis and enabling the cancer to grow. She stated the program made a real difference to her (Mathews, 2009).

Some of the large companies that have wellness programs are Home Depot, Safeway, Publix, Nova Southeastern University, PepsiCo, Lowe’s, and General Mills (Mujtaba and Cavico, 2013). Safeway offers reimbursements to employees for meeting blood pressure, cholesterol, weight, and tobacco cessation goals (Schmidt, Voigt, and Wikler, 2009). IBM has a healthy-living rebate program that offers financial incentives to employees who do well in certain key health areas, to wit: physical activity, healthy eating, weight management, clinical preventive care, and children’s health (IBM’s Global Wellness Initiatives, 2013). During annual enrollment periods, IBM employees can choose from three wellness rebates: 1) Personal Vitality Rebate; Children’s Health Rebate; and Physical Activity – Nutrition Rebate. Each rebate is worth $150; and each rebate has specific requirements that must be completed in order to receive the money. The objective of the Personality and Vitality Rebate is to help employees build energy and have a balanced lifestyle in order to achieve optimal health. The first step is for the employee to evaluate his or her energy level, focusing on activities that
boost as well as drain energy. The second step is to find activities that will build energy over a three month period. These activities can vary and are based on what the employee thinks is best and achievable for him- or herself. The final step is an evaluation of the effect of these activities over the three month period, including the recognition of the effect of these activities on the employee’s personal health. There are also three steps to the Children’s Health Rebate, the goal of which is to help parents help their children maintain a healthy weight. The first step is the completion of a Family Meal Analysis, which examines a family’s eating patterns, developing a family action plan for healthy eating, and choosing program resources to be used at home. The second step is an evaluation of the plan half-way through the program to ascertain if any adjustments have to be made. The final step is to evaluate the family’s achievements, and then set new goals. The Physical Activity – Nutrition Rebate focuses on physical activity and healthy eating. The same steps described in the Children’s Health Rebate and Personal Vitality Rebate will need to be achieved. Realizing personal goals is a major emphasis of this third rebate. The objective of IBM’s wellness program “is to create a ‘culture of health’ that fosters long-term commitment to healthy lifestyles and the reduction of health risks among our employees and their families” (IBM’s Global Wellness Initiatives, 2013, p. 1). Such a wellness program as IBM’s can be posited as a win-win type program since employers have less healthcare costs as well as more productive employees and employees have better health.

**Practical Dimensions of Wellness and Health**

Employers in the United States., including foreign employers doing business in the U.S., must be cognizant of the many federal and state statutory and regulatory laws as well as the common law of tort that can apply to wellness programs in the workplace. There is, literally, a patchwork of laws that could apply to workplace wellness programs. These laws include Title VII of the Civil Rights Act, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Employee Retirement Income Security Act (ERISA), the Health Insurance Portability and Accountability Act (HIPPA), the Genetic Information Non-Discrimination Act (GINA), and the new Affordable Care Act, which is to be implemented in 2014. Then there are also the common law torts of invasion of privacy and intentional infliction of emotional distress which could be applicable to wellness programs. To illustrate the potential legal “pitfalls” for the employer, the authors would point to the following scenarios:

- A wellness program that penalizes employees for smoking may have an adverse or disparate (that is, disproportionate) impact on certain employees who may be minorities, consequently triggering possible liability under the Civil Rights Act.
- Similarly, a wellness program, though neutral on-its-face, may have certain objectives or measurements that produce an adverse or disparate impact against older workers who are protected by the Age Discrimination in Employment Act.
- An employee may not be able to participate in a wellness program due to a recognized disability, such as a medical addiction to tobacco or being severely obese, thereby triggering the Americans with Disabilities Act.
- An employer’s wellness program may be construed as part of a healthcare “plan,” and as such be covered by ERISA disclosure and reporting requirements.
- An employer’s wellness plan may also be governed by HIPPA, which has strict confidentiality requirements.
- If the employer’s wellness program provides a monetary incentive or reward to the employee for meeting certain health measurements, the reward must meet several
requirements of HIPPA (for instance, the amount not exceed 20% of the employee-only coverage) and the Affordable Care Act (which raises the percentage to 30).

- If the employer’s wellness program asks the employee for genetic information about the employee and/or the employee’s family, the employer must be well aware that the use of this information is strictly regulated by GINA, for example, the providing of the information must be purely voluntary as well as knowing.

The employer has, of course, discretion in adopting a wellness plan, but this discretion must be exercised very carefully, especially since there is not yet a great deal of legal guidance as to the applicability of key laws to wellness programs. The wellness plan must be properly structured to be legal, moral, and efficacious. Legally, the authors would emphasize the following basic “preventative” points about wellness programs (Mujtaba and Cavico, 2013, pp. 7-8):

- Avoid any direct or indirect discrimination when creating or implementing the wellness program.
- Make sure health-related rewards or penalties do not exceed 20% of the cost of the employee’s health coverage (and note this percentage will increase to 30% as per the U.S. Affordable Care Act).
- Do not reduce an employee’s pay for any healthcare issue; rather, connect what the employee pays for healthcare to whether the employee meets or fails to meet certain healthcare standards.
- Provide alternatives or offer exemptions for employees who cannot for underlying medical reasons participate in a wellness program or meet certain healthcare goals.
- Do not request health records before extending an offer of employment.
- Keep employee healthcare information strictly confidential.
- Keep in mind that many U.S. laws, especially civil rights laws, have extraterritorial effect; and thus these laws will protect employees of a U.S. company doing business overseas so long as the employees are American citizens. These laws will also protect employees (again who are U.S. citizens) of a foreign company that is controlled by a U.S. company.
- Foreign employees of U.S. companies who are working in the U.S. must also be protected by civil rights laws.
- Always treat employees (as well as all people, of course) as human beings and thus with dignity and respect as worthwhile “ends” and not mere “means” to cut healthcare costs.

A “carrot” incentive-based approach makes more sense for the prudent employer because it hopefully will encourage and motivate the employee to achieve a healthier lifestyle, perhaps by seeking medical assistance to attain that goal. Pursuant to an incentive-based approach, employees should be more forthcoming about their health issues, particularly if they are assured of confidentiality, so that they can strive to receive the rewards and benefits from changing their “bad” habits to become healthier. A good wellness program should be able to motivate employees to obtain information about their health status, and then, as needed, to take preventative health measures which are medically appropriate and customized to their personal well-being (Noll, 2010). Confidentiality is a critical component to any wellness program, as some evidence that an employee is meeting wellness standards and goals will be required. Nonetheless, employees must feel that they have control over their sensitive health information and thus the information will not be shared, used, sold without their knowledge and consent.

Noll (2010, p. 2) offers the following practical advice to employers contemplating adopting wellness programs:
• Carefully assess the legal framework before establishing a wellness plan
• Be as clear as possible as to why the employer wants to adopt a wellness program, what it hopes to achieve, and understand the commitment in terms of personnel, time, and money
• Create an employee wellness committee that represents all levels of the organization to help structure the program and to promote the employer’s wellness mission
• Implement the program gradually and seek employee “feedback” from participants as well as non-participants as to perceptions of the program
• Use a qualified third party to operate the wellness program that has all pertinent federal and state licenses, maintains adequate liability insurance, and has professional staff to conduct medical screenings and provide counseling to employees
• Keep wellness program employee medical information strictly confidential; do not share such individualized information with the employer or fellow employees; and have a contract with the wellness program provider that includes an agreement covering HIPAA as well as other relevant federal and state laws
• Do not make any rewards, benefits, or premium incentives contingent upon the employee completing a Health Risk Assessment that asks for genetic information, such as family medical history as GINA may be triggered.

According to Mujtaba and Cavico (2013, p.9), a healthy employee should feel better physically as well as mentally, emotionally, and spiritually. He or she will be able to perform work tasks more efficiently and effectively, more readily achieve goals, and be more successful and self-satisfied. Accordingly, the prudent employer must demonstrate to the employees the disadvantages of having an unhealthy lifestyle and the advantages that will accrue from having a lifestyle change and obtaining good health. The employer thus must show that by participating in the voluntary wellness program their health will improve. Moreover, the employer must show that the employees’ healthcare costs will be reduced and thus their paychecks will be increased. The employees should have the option to participate in the wellness program. As such, the rational and egoistic employee will certainly take heed of the “sales pitch” – Get healthy, feel good, and save money! Such an approach if carried out in a legal and ethical manner should be a “win-win” situation for the employee and employer (Mujtaba and Cavico, 2013).

Overall, any comprehensive wellness program is likely to have many dimensions in order to meet physical, mental, social, emotional, professional, and spiritual needs of employees (Covey, 1989; Wellness Made Simple, 2013; Mujtaba and Cavico, 2013, p. 9), and the following are some elements:
1. Physical exercise, when done properly and regularly, can provide many benefits such as strength, flexibility, and resistance.
2. Mental wellness is about continuously making good use of one’s intellectual faculties by doing worthwhile things, making contributions to society, and searching for more answers to one’s curiosities.
3. Social wellness means doing one’s part to make the world a little better for oneself, the family, and the community. It means doing what is sustainable for the long-term harmony of living with nature.
4. Emotional wellness refers to understanding one’s feelings and accepting things that cannot be changed. It is about emotional maturity to accept life’s challenges, limitations, and boundaries, while still making progressively more contributions.
5. Professional wellness means being part of a company that allows one to be “first class” at his or her job. Being “first class” means you make full use of your abilities, potential, skills, natural gifts, and talents in a meaningful and rewarding manner.

6. Spiritual wellness means taking time to appreciate the purpose of one’s existence and respecting nature’s forces that exist in our universe.

In order to have a truly comprehensive wellness program for all dimensions of an employee’s needs, managers should include motivational content for their employees to become fulfilled, to learn, and to manage, including managing procrastination, taking small steps, being persistent, and having fun in the workplace (Mujtaba, 2006; Mujtaba, 2014). The authors would recommend an incentive approach as part of a comprehensive strategy to create a “culture of wellness” in the workplace. Such elements to a comprehensive wellness plan might include having healthy food and beverages in the cafeteria, health club or gym memberships, walking programs, and access to free filtered drinking water. By taking heed of the aforementioned recommendations, and making sure that the wellness program complies with the law and also treats employees with dignity and respect, the employer will achieve a legal, moral, and efficacious wellness program – a “win-win” scenario for the employer, the employee, the employee’s family, and the local community.

Summary

Most corporate leaders and institutional managers are concerned with increasing healthcare costs in the workplace. As a result, many employers have adopted wellness programs in order to encourage their employees to become healthy. Many of these programs utilize an incentive-based “carrot” approach; others are imposing the “stick” approach by imposing penalties in the form of health insurance surcharges. This article examined the ramifications of employers adopting wellness programs and provided appropriate recommendations. Voluntary “carrot” wellness programs were differentiated from more coercive “stick” programs, both of which can be part of wellness programs. Many examples of both types of wellness programs, and the rationales therefore, were provided. Employers in the U.S. must be well aware of the variety of laws that can impact wellness programs in the workplace and also that certain laws have extraterritorial effect. The final portion of the article made appropriate recommendations to managers on how to set up and implement legal, moral, and practically efficacious wellness programs in the workplace.

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Individual Absorptive Capacity: The Influential Factor on the Individual Knowledge Acquisition of Host-country National (HCN) of Foreign MNCs in E&E Sector in Malaysia

Abstract

An individuals’ absorptive capacity is central to any knowledge transfer activities in MNCs. In MNCs, knowledge is effectively delivered from knowledge repositories to the potential recipients only when the respected parties possess sufficient absorptive capacity to acquire that specific knowledge. For local workers, knowledge acquisition in MNCs is an important element for their skill enrichment as it provides them with the avenue to enhance their skills and knowledge. This activity allows host-country national (HCN) workers to become expert or specialist in the related area. The presence of MNCs in Malaysia is perceived to be the best medium for the effective knowledge acquisition activities among locals who are employed in these organizations. Overall, the study investigates the relationship between two main variables, individual absorptive capacity and individual knowledge acquisition of HCN workers in foreign MNCs in Malaysia.

Keyword: Absorptive capacity, knowledge acquisition, knowledge management, MNCs

INTRODUCTION

Transforming an organization’s human capital from semi-skilled to skilled workers requires a comprehensive plan in developing and retaining the local competencies in various disciplines. Currently, the number of total skilled-labour in Malaysia is still inadequate to cater to the need of local and international firms (The World Bank, 2011). According to the statement made by Economic Planning Unit (2010) in Prime Minister’s Department, Malaysia is only able to produce 28 per cent of high-skilled labour from the total domestic labour. Based on the current situation, there is an urgent need for actions to be taken by the government to upgrade and augment the skill of the existing workforce through private sector participation in the training and development program as the aim is to increase the number of skilled-labour to at least 50 per cent of the total workforce by 2020 (The Economic Planning Unit, 2010).

Within this context, the presence of MNCs in Malaysia is expected to benefit the nation’s human capital development through training and knowledge transfer programs. The MNCs has been identified as an important conduit in providing the foundation towards human capital development of the nation due to MNCs capability in providing training on the latest...
technology to the local workforce. Individual knowledge acquisition in the workplace is effective, whether for production operator level or upper-level executives through on-site or off-site training. Therefore, in order to understand the effectiveness of individual knowledge acquisition within MNCs, it is crucial to examine the individual absorptive capacity of Host-country National (HCN) workers. Hence, the study would be able confirm the linkages that exist between both variables.

**Literature Review**

**Individual absorptive capacity**

The concept of individual absorptive capacity was introduced by Cohen and Levinthal (1990), as they stressed that the organization’s absorptive capacity is always rely on the individual employee’s absorptive capacity. This implies that the individual absorptive capacity can significantly impact the firm’s learning capacity especially when the particular firm is actively involved in knowledge transfer activities. Therefore, it is important to examine the concept of absorptive capacity at the individual level especially in the cognitive domain as it reflects the organization’s competitive advantage and performance (Tang, Mu, & MacLachlan, 2010).

According to Hamel (1991) the individual capacity to absorb knowledge is not equally distributed among employees in the organizations itself. Everybody has different capability to absorb knowledge because individual capabilities rely on prior knowledge such as educational background and exposure to the specific area of work and the motivation of the individual workers. In certain situation, the skill and ability to observe, interpret, apply, and knowledge improvement belong only to a certain group of employees, while others might not possess the same skill and ability (Hamel, 1991). When this occurs, the effectiveness of either inter or intra-firm knowledge transfer activities will be hindered since individual employees in a firm plays a vital role in overall knowledge transfer process (Tang et al., 2010). This is supported by Kwok and Gao (2006) stating that individuals who possess better absorptive capacity will be more competent in learning, assimilating, and utilizing knowledge.

Conceptually, individual absorptive capacity is similar to organizational absorptive capacity as it refers to the ability of oneself to identify, assimilate, and apply knowledge that benefits the organization and those efforts can be utilized and commercialized by the organization (Cohen & Levinthal, 1990). The development of individual absorptive capacity will influence the development organizational absorptive capacity cumulatively since the individual workers in organization act as ‘gate keepers’ for inflow of external knowledge into the organization (Cohen & Levinthal, 1990). However, recent studies by Tang et al. (2010) have failed to highlight the role of individual absorptive capacity in assisting the workers to acquire knowledge. Table 1.0 below exhibits the summary of the absorptive capacity empirical studies made from 2007 to 2012.
Table 1
The Empirical Evidence on Absorptive Capacity Research

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Background of the Study</th>
<th>Study Setting/ Level of Analysis</th>
<th>Methodology/ Sample</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kostopoulous et al., (2011)</td>
<td>Investigating the role of absorptive capacity in achieving a good innovation and financial performance.</td>
<td>Study Setting: Greek/ Europe Level of Analysis: Organizational</td>
<td>Survey/ 461 Greek enterprises</td>
<td>(+) External Knowledge Inflow (A) (+) Absorptive Capacity (IV) (+) Innovation Performance (MV) (*) Financial Performance (DV)</td>
</tr>
<tr>
<td>Gururajan &amp; Fink (2010)</td>
<td>Study the knowledge transfer among academicians and factors that influence that activity.</td>
<td>Study Setting: Australia Level of Analysis: Individual</td>
<td>Focus Group and survey/ 40 academic members</td>
<td>(+) Absorptive capacity (+) Trust (+) Motivation (*) Knowledge transfer (DV)</td>
</tr>
<tr>
<td>Hui &amp; Khairuddin (2009)</td>
<td>The role of firm’s absorptive capacity to achieve innovation capability.</td>
<td>Study Setting: Malaysia/ Asia Level of Analysis: Organization</td>
<td>Survey/ 215 MSC status companies in Malaysia</td>
<td>Absorptive Capacity (IV) (+) External knowledge acquisition (+) Intra-firm knowledge dissemination (+) Knowledge utilization (*) Innovative Capability (DV)</td>
</tr>
<tr>
<td>Sazali, Raduan, Jegak &amp; Haslinda (2009)</td>
<td>Investigate the degree of Inter-firm technology transfer through IJV.</td>
<td>Study Setting: Malaysia/ Asia Level of Analysis: Organization</td>
<td>Survey/ 145 IJV firms in Malaysia</td>
<td>(+) Absorptive capacity (IV) (+) Recipient collaborativeness (IV) (*) Inter-firm technology transfer (DV)</td>
</tr>
<tr>
<td>Study</td>
<td>The influence of absorptive capacity and social capital on knowledge transfer.</td>
<td>Study Setting: Pacific Countries/ Asia</td>
<td>Level of Analysis: Organization</td>
<td>Surveys/ 303 USA foreign subsidiaries operated in Pacific countries.</td>
</tr>
<tr>
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</tr>
<tr>
<td>Study</td>
<td>Exploring the effect of absorptive capacity on productivity at individual level.</td>
<td>Study Setting: USA</td>
<td>Level of Analysis: Individual</td>
<td>Surveys/ 743 engineers doing highly analytical engineering work</td>
</tr>
<tr>
<td>Deng, Doll &amp; Cao (2008)</td>
<td>Investigates the relationships between knowledge acquisition, absorptive capacity, and innovation capability.</td>
<td>Study Setting: Taiwan/ Asia</td>
<td>Level of Analysis: Organization</td>
<td>Surveys/ 362 firms in Taiwan</td>
</tr>
</tbody>
</table>

**Notes:** (+) Positive relationship, (-) negative relationship, (u) u-shape relationship, (n) no relationship, (*) the absorptive capacity variable is dependent variable.

Based on the above literatures, obviously, individual absorptive capacity studies are still limited especially in relation to management and international business domain. In the actual business and management scenario, business organizations are struggling to equip their firms with skilled workers, with the ability to absorb newly disseminated knowledge within short time. Without this capability, the firms’ ability to survive in a highly competitive environment will be uncertain and it will also restrict knowledge transfer activities within or between organizations. This is supported by the argument made by strategic human resource
scholars such as Wright, Dunford and Snell (2001) stating that individuals in organization possess different portfolio of skills, thus, implying that the individual workers have different level of absorptive capacities to capture knowledge imparted within the organization. Additionally, majority of knowledge management literatures postulate that the learning activities in organization begin with individual (Nonaka, 1994; Crossan et al., 1999). Therefore, it is possible to claim that organizational absorptive capacity relies on individual absorptive capacity (Narteh, 2008).

**Individual Knowledge Acquisition**

In general, the individual knowledge acquisition is known as the process by which the knowledge is obtained (Huber, 1991). Individual knowledge acquisition can be defined as the process of acquiring knowledge from domain expert or any authenticated source of knowledge (Mykytyn et al., 1994). Individual knowledge acquisition also refers to the activities by which the employees are involved in recognizing and acquiring tacit and explicit knowledge (Zahra & George, 2002).

Prior to knowledge acquisition activities, the internal capabilities such as prior related skills influence the effectiveness of the workers’ knowledge acquisition activities (Politis, 2002). At individual level, the interrelationship between the individual absorptive capacity and individual knowledge acquisition is perceived to have strong inter-relationship between both constructs (Murray & Chao, 2005). As a conclusion, the individual absorptive capacity is expected to influence the individual knowledge acquisition of the workers. Base on literature review, a hypothesis with three sub-hypotheses were formed to be test the inter-relationship between variables.

Further explanation concerning knowledge acquisition is also described in Anderson’s Skill Acquisition Model (Anderson, 1982; 1983). This model explains the flow in the acquisition process. During the first stage or at ‘declarative stage’, knowledge is acquired as a set of verbal facts. It is followed by ‘knowledge compilation stage’, referring to the conversion of knowledge into a procedural form of practice. The last stage refers to the ‘procedural stage’ involving application of knowledge in an appropriate manner (Anderson, 1982; 1983). In this study, knowledge acquisition will be portrayed as behaviour consistent with the social cognitive theory that explains the interaction between environment, individual, and behaviour.

\[ H1a: \text{ Individual absorptive capacity will positively influence individual knowledge acquisition of HCN workers in foreign MNCs in Malaysia.} \]

\[ H1a1: \text{ The ability to identify knowledge will positively influence individual knowledge acquisition of HCN workers in foreign MNCs in Malaysia.} \]

\[ H1a2: \text{ The ability to assimilate knowledge will positively influence individual knowledge acquisition of HCN workers in foreign MNCs in Malaysia.} \]

\[ H1a3: \text{ The ability to apply knowledge will positively influence individual knowledge acquisition of HCN workers in foreign MNCs in Malaysia.} \]
METHODOLOGY

The population of the study comprised of Malaysian workers employed by foreign MNCs in Malaysia, specifically in electrical and electronic industry. However, the ability to get the reliable sampling frame is not achievable since there is no official published directory or data for HCN workers employed by MNCs in Malaysia. Due to the above constraint, the sampling technique used in this study is judgmental sampling. The judgmental sampling ‘involves the choice of subjects who are in the best position to provide the information required’ (Sekaran, 2000, p. 278). This sampling method is appropriate because the sample of the study requires specific attributes to be attached to it to make the interpretation of data is meaningful. In the process of determining the specific attributes to be attached to the samples, the researcher make judgment based on objective and context of the study.

For the purpose of testing the hypotheses, a total of 1245 questionnaires were distributed using mail survey and drop-and-collect approach. The reason for applying various techniques in data collection procedure is due to the ability of this combination technique to gain higher response rate (Parker, 1992; Schaefer & Dillman, 1998). For the data collection process, a total of five questionnaires were sent to each human resource manager and to be distributed to the respondents in the selected organization.

Of 1245 questionnaires, a total of 345 persons participated in the survey. Since only fully completed questionnaires were taken into account for further analysis, the final dataset comprising of 305 observations were finalized and accepted. Contingency tests in respect of the non-response bias (Morton-Williams, 1993) did not indicate any significant relationships. Consequently, the researcher did not regard the omitted questionnaires as a debilitating factor.

For the purpose of analyzing the data, the study applies PLS-SEM to examine the relationship between variables. This was due to the model estimation of its formal premises embody a greater range of flexible applications. In addition, the PLS-SEM is more appropriate for analyzing the predictive model rather than theory testing model (Hair et al., 2011). Moreover, the objective of the analysis was to determine the impact of latent variables that can be measured by reflective measurement models. In this aspect, the PLS approach emerged as the more suitable method. Since the hypotheses require the researcher to examine the two structural models, which refer to first order individual model and second order structural model. Figure 1 and figure 2 below illustrate the network diagram for both models.

Figure 1
The First Order Structural Model for Individual Latent Variable
Note: The ‘ABS’ abbreviation refers to individual absorptive capacity. ABS1 = the ability to identify knowledge, ABS2 = the ability to assimilate knowledge, ABS3 = the ability to apply knowledge. The ‘IKA’ abbreviation refers to individual knowledge acquisition.

Figure 2
The Second Order Structural Model for Main Latent Variable

Note: The ‘ABS’ abbreviation refers to individual absorptive capacity. ABS1 = the ability to identify knowledge, ABS2 = the ability to assimilate knowledge, ABS3 = the ability to apply knowledge. The ‘IKA’ abbreviation refers to individual knowledge acquisition.

Figure 1 and 2 above illustrate the path model, T value for each relationship, and $R^2$ for the main effect model. Within the scope of structural equation modelling, the inner and outer model assessment require the researcher to assess the reliability, validity, size effect, and goodness of fit of the model. In detail, the PLS path model evaluation steps consist of the outer model (measurement model) evaluation with regard to the reflective constructs’ reliability and validity while inner model (structural model) evaluation in respect of variance accounted for, path estimates and the predictive relevance of the inner model’s explanatory variables for the endogenous latent variable.

ASSESSMENT OF THE REFLECTIVE MEASUREMENT MODEL
All the requirements with regard to the reflective measurement model for the exogenous and endogenous latent variable have been clearly met. All factor loadings lie well above 0.60. The average variance extracted (AVE) for all constructs is satisfactory with value above 0.50. Internal consistency, both composite reliability and Cronbach’s Alpha are all above 0.70 which indicates good internal consistency of the variables. All communalities values are also exceeding 0.50 which implies good indicators’ reliability. Table 2 below summarizes the vital statistics of the study.

Table 2
The vital statistics of the outer model

<table>
<thead>
<tr>
<th>Construct</th>
<th>AVE</th>
<th>Composite Reliability</th>
<th>$R^2$</th>
<th>Cronbach’s Alpha</th>
<th>Communalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABS1</td>
<td>0.54</td>
<td>0.82</td>
<td>0.72</td>
<td></td>
<td>0.54</td>
</tr>
<tr>
<td>ABS2</td>
<td>0.61</td>
<td>0.86</td>
<td>0.79</td>
<td></td>
<td>0.61</td>
</tr>
<tr>
<td>ABS3</td>
<td>0.58</td>
<td>0.89</td>
<td>0.85</td>
<td></td>
<td>0.58</td>
</tr>
<tr>
<td>IKA</td>
<td>0.53</td>
<td>0.85</td>
<td>0.20</td>
<td>0.78</td>
<td>0.53</td>
</tr>
</tbody>
</table>
ASSESSMENT OF THE STRUCTURAL MODEL

The central criterion for the assessment of the structural model is the coefficient of determination $R^2$. With a value of 0.20, the $R^2$ of the endogenous latent variable ‘Individual Knowledge Acquisition’ indicates a satisfactory level. The Stone-Geisser criterion $Q^2$ is established using the blindfolding procedure to compute cross-validated redundancy (Henseler et al., 2009). In the analysis, all $Q^2$ values range above the threshold value of zero, thus indicating the overall model’s predictive relevance. The evaluation of effect ($f^2$) and also predictive relevance ($q^2$) confirms the key role of exogenous the latent variables ‘the ability to identify and apply knowledge’ at $f^2$ 0.07 (significant but small effect size) and $q^2$ at 0.10 indicates significant but small predictive relevance. Meanwhile the global criterion of goodness-of-fit (GOF) value falls at 0.3, which indicates medium level of compromise between the quality of the measurement and structural models. Thus, the model is fit for further statistical analysis. The analysis indicates that all measures used are reliable and valid. Consequently, appropriate implications to explain the level of individual absorptive capacity which influences the individual knowledge acquisition can be derived from the analysis results.

HYPOTHESES TESTING

The analysis of the structural model path coefficients shows that the predictor variables ‘the ability to apply knowledge’ exert a moderate influence on individual knowledge acquisition with path coefficient at 0.29. This is followed by the ability to identify knowledge, which exhibits noticeably lower path coefficients at 0.18. The results of a bootstrapping analysis show that main hypothesis which demonstrates between individual absorptive capacity (ABS) and individual knowledge acquisition (IKA) is significant at significant level of $p<0.01$. The model also comes with sub-hypotheses, with two out of three sub-hypotheses within the structural model are significant ($p<0.01$, one-tailed).

Table 3

The summary of hypothesized structural relationship between individual absorptive capacity and individual knowledge acquisition

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Relationship</th>
<th>Full Model</th>
<th>Supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1a</td>
<td>ABS $\rightarrow$ IKA</td>
<td>$0.39307$ $0.051192$ $7.678^{**}$</td>
<td>Yes</td>
</tr>
<tr>
<td>H1a1</td>
<td>ABS1 $\rightarrow$ IKA</td>
<td>$0.17820$ $0.061954$ $2.876^{**}$</td>
<td>Yes</td>
</tr>
<tr>
<td>H1a2</td>
<td>ABS2 $\rightarrow$ IKA</td>
<td>$0.02602$ $0.074367$ $0.349$</td>
<td>No</td>
</tr>
<tr>
<td>H1a3</td>
<td>ABS3 $\rightarrow$ IKA</td>
<td>$0.29327$ $0.080582$ $3.639^{**}$</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Note: (***) Significant at $p<0.01$, based on one-tailed t-statistics table, as t-value greater 2.35.

The result also indicates that the ability to identify knowledge has significant effect on the individual knowledge acquisition with coefficient value of 17.8 per cent with $T=2.88$ which is significant at $p<0.01$. However, the ability of the HCN workers to assimilate knowledge in MNCs does not affect the individual knowledge acquisition. This is proven by a very small $T$ value which is only at 0.3 with coefficient value of 0.02 per cent. As for the ability to apply knowledge, there is a significant influence of this construct on individual knowledge acquisition, with beta value of 29 per cent ($T =3.64$) and significant at $p<0.01$ with. Overall, hypothesis H1a1 and H1a3 are supported while H1a2 is not supported.
CONCLUSIONS

The study has concluded the individual absorptive capacity acts as important catalyst for successful knowledge acquisition activities in MNCs. Specifically, the HCN workers need to have the ability to assimilate knowledge, in addition to the ability to identify knowledge and the ability to apply knowledge in order to acquire knowledge. In conclusion, Malaysian workers who work in foreign MNCs in Malaysia have sufficient capability to acquire knowledge from various knowledge transfer activities in their current organization.

References

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**Modeling the Influence of Perceived Ethics and Corporate Reputation on Performance of Leather Industry in Nigeria**

**Abstract**

This study examines the influence of perceived ethics, corporate reputation on performance of leather industry in the context of Nigeria. A survey questionnaire was used to collect data from leather industries in Kano North-West of Nigeria. The study utilised the Structural Equation Modeling (SEM) using Partial Least Square modelling (PLS). However, as predicted, the path coefficient result support the direct influence of corporate reputation, was found to be significant to organizational performance. On contrary, perceived ethics was not significant to organizational performance. This may indicates that despite business in Nigeria were quickly understand the circumstances of adopting ethical action practices, the concern of social practices is still be deficient. The theoretical and practical implications of these findings are discussed.

**Keywords:** Perceived ethics, Corporate reputation, Organizational performance, Leather industry and Nigeria.

**Introduction**

Business Social Responsibility (BSR) has been more topical; it is now conventional and focuses whether firms behave responsible toward the community or to wider society. The idea of business having responsibility to a wide range of stakeholders beyond those who have contributed capital to the business is good for society (Abiodun, 2012; Adegbite & Chizu, 2011; Carroll, 1989). BSR should not be seen as new idea in Nigeria, it has well recognized tradition especially in family owned business that are well grounded toward society through charity and philanthropic activities.

However, a large increase body of literature available over the past years had demonstrated the significant of BSR as effective tools for business toward enhancing effective business performance. The need to examine the social responsible behaviour in Nigerian industries is necessary, many business in Nigeria are driven by the need to make more profit to the detriment of all the stakeholders. Some do not adequately respond to the needs of host communities, employee welfare, environmental protection and community development. Previous research has shown that BSR can increase profitability, sustainability, integrity and reputation of any business that includes it in its strategy. This study will focus on leather industry in Nigeria. Leather industry offers a huge potential growth. However, the industry is struggling to maintain export competitiveness, which is evidence by the fact that the leather industry accounted for 36.84% of non-oil export in 2004 but only 20.4% in 2005 (UNCTAD, 2009; Amakon, 2006). Research in this vital sector in finding its action on responsible
behaviour is necessary so as to sustain its competitive advantage and fulfil its potentials growth level.

Consequently, the perception of BSR activities entail the dependence of business success on the relation and interactions between an organization and its stakeholder for example, in ability of the business to satisfy its customers need or want to make available suitable pricing pair safe, hygienic products Gorondutse & Hilman, (2013). Also as component of international strategies business threat losing regular direct if they fail to meet the environmental regulation required by its consumers. Therefore, business must enhance their corporate reputation to meet the changing demands of the diverse stakeholder. In addition the industry must realized that stating BSR as one of their mission statements hold a special plead to the stakeholder.

Therefore, the aim of this paper is to examine the relationship between perceived ethics and corporate reputation on performance of leather industry in Nigeria, to the best of our knowledge no related research exist in the context of the study. The paper is organized as follow, the next section review previous research on BSR, perceived ethics and corporate reputation to developed a conceptual framework that indicates the significant relationship between these variables, next we tested the predicted path ways in the framework, finally the paper discuss the managerial and theoretical implication of the study.

**Literature review**

**Business Social Responsibility (BSR)**

To date in the literature there is no unanimous accepted definition of BSR (Matten & Moon, 2008; Torugsa, Donohue, & Hecker, 2012). This might be as CSR is a sunshade term overlap with some, and being identical with other concepts of business–society relationships (Matten & Moon, 2008; Torugsa et al., 2012). In fact, many scholars are of the view that BSR and CSR are identical, exchangeable and interchangeable (Beneke, Wanke, Pelteret, Tladi & Gordon, 2012; Dewan, 2009; Lee, 2008; Matten & Moon, 2008; Perrini, 2006). Recently, The International Standard Organization (ISO) refers social responsibility as a positive move toward organization to address financial, societal and technological challenges and issue in such way that aims to provide benefit to humanity, community, and society (ISO, 2012).

Business Social Responsibility (BSR) has been regularly seen as responsible acts of public and private sectors toward society and environments (David, 2012). Corporate Social Responsibility also known as Corporate Principles, Corporate Nationality, Corporate Social Responsibility (CSR), Business Ethics, Social Performance, or Sustainable (David, 2012; Lee, 2008; Matten & Moon, 2008). Similarly, All these are also known as an ethical principles or view where by a unit be it an organization or individual has an obligation to act in order to benefit the society at large (Lee, 2008; Matten & Moon, 2008).

**Perceived Ethics**

Business ethics are moral behaviours that business adheres to guide the way it behaves (Valentine & Fleischman, 2008). Organizational ethics is a desire to adopt moral principles and company practices. However, some organizations encourage an ethical customs by given optimistic ideals that influences organizational members’ moral beliefs and performances (Trevino & Nelson, 2004; Valentine & Fleischman, 2008). In recent years, it necessitate firms to become more moral and has been noticeably underlined in the community mind by the several very publicised collapses of US-based firms such as Enron, WorldCom and Tyco;
in addition, with Australian firms like HIH, Onetel, Westpoint and UMP including Parmelat in Italy (Cacioppe, Forster, Fox, 2008). The recent issues concerning dozens of firms paying bribes to the government of Saddam Hussein has also further to this unenthusiastic notion (Cacioppe et al., 2008).

Furthermore, ethics related programs are likely to enhance organizational performances, and corporation participation in BSR behaviour. It ought to persuade their employees to work more ethically (Valentine & Fleischman, 2008). For instance, dissonance theory suggests that workers understanding decreased disagreement and increased happiness when a company is substantiated to be ethical (Cacioppe et al., 2008; Viswesvaran, Deshapande & Joseph, 1998). The same should be proper when communally responsible strategies are initiated by a firm to enhanced welfare and the needs of key stakeholders (Clarkson, 1995; McWilliams & Siegel, 2001; Valentine & Fleischman, 2008). Such hard work institutes attractive goals for BSR, which should preferably improve the similarity linking the desires of the corporation and the wishes of workers (Cacioppe et al., 2008; Tuzzolino & Armandi, 1981).

**Corporate Reputation**

Business managers believe corporate reputation is the critical elusive resource that leads to competition advantage (Siltaoja, 2006). The significant of corporate reputation has been supported by a highly positive connection between corporate reputations and its return of assets (Deephouse, 2000; Roberts & Dowling, 2002). There are numerous of enabling machinery support to this procedure, a good reputation insulates the business from stakeholder perception of negative information (Lange, Lee & Dai, 2011). In addition a significant reputation is also attractive to employee and customer (Lange et al., 2011).

Similarly, the association between corporate reputation and BSR in developing economics like Nigeria is not uncomplicated. The impact of BSR on corporate reputation in the eyes of diverse but mostly external stakeholder is twisted by how the business converse its BSR actions and how its activities are reported in the national media and other communication media. A business can use BSR deeds as machinery to indicator desirability features to stakeholder (Fombrun, 2005). BSR can be viewed as a form of strategic investment in reputation building or maintenance by making strategic investment in reputation.

**Organizational Performances**

Firm performance, is one of the most relevant constructs in the field (Peloza & Papania, 2008; Rumelt, Schendel, & Teece, 1994), and the construct is commonly used as the final dependent variable (Richard, Devinney, Yip, & Johnson, 2009) in various fields (Cho & Pucik, 2005; Peloza & Papania, 2008; Sila & Ebrahimpuor, 2005; Wiklund & Shepherd, 2003;). Despite its relevance, research into firm performance suffers from problems such as lack of consensus, selection of indicators based on convenience and little consideration of its dimensionality (Combs, Crook, & Shook, 2005; Crook, Ketchen, Combs, & Todd, 2008; Richard, Devinney, Yip & Johnson, 2009).

Many studies measure firm performance with a single indicator and represent this concept as one-dimensional, even while admitting its multidimensionality (Glick, Washburn, & Miller, 2005). If several dimensions exist, a researcher should choose the dimensions most relevant to his or her research and judge the outcomes of this choice (Richard et al., 2009). Ray, Barney & Muhanna (2004) stress this, warning against the difficulties of testing the Resource Based View (RBV) using aggregated measures of performance and suggesting the use of indicators directly connected to the resources under analysis. The fact that profit and growth
are relevant motives for the existence of a business firm and must be included in any attempt to measure performance is indisputable (Peloza & Papania, 2008).

**Perceived Ethics and Performances Relationships**

Organizational ethics is a firm's embracing of beloved ethical principles and business practices. Some firms encourage an ethical culture/climate by establishing significant values that persuade organizational members' ethical beliefs and measures (Trevino & Nelson, 2004). Other firms advance organizational ethics with code that here ethical values and behavioral necessities. A natural expansion of organizational ethics is a company's participation in BSR, which includes answering the requirements of stakeholders, with exacting focus on societal issues and opportunities (Joyner & Payne, 2002). It therefore stands to basis that ethics programs not only increase a company's ethical culture, but also its consideration to BSR other ethics programs should also enhance a firm's performances (Berrone et al, 2007; Sen & Bhattacharga, 2001; Singhapakd et al, 1995). Previous studies found relationship between perceived ethics and financial performances to be positive (Taylor, 1987; Waddock & Cranes, 1994). However, Aupperle & Carroll, 1985; Coffey & Fryxell, 1991, found there are no relationships or mixed results and method used varied and Contentious (Verschoor, 1998). Despite that, other studies use perceives ethics & performances in the perspective of customer and there is inconsistency in the results (Tian et al., 2011; Standland et al., 2011; Peng-lin et al., 2011 & Valentine & Fleischman, 2008).

Based on the above, this study will test the relationships on the organization perspectives and will look at both financial and non financial aspect of Performance measurement. And this relation is in line with stakeholder theory which states that managers should tailor their policies in order to satisfy a number of stakeholders (Freeman, 1984). Therefore, we posit:

H1: Perceived ethics is positively associated with Organizational performances.

**Corporate Reputation and Performance Relations**

Previous research to date provides and evidence that corporate reputation is a fundamental subtle resources that give a firms reasonable benefit (Brammer & Millington, 2005; Fombrun & Shanley, 1990; Hsu, 2012; Lai et al., 2010; Shamsie, 2003; Retab et al., 2009). Although the connection between BSR and corporate reputation in developing nation are not clear-cut this is because businesses functioning in emerging nation are lacking skills and tradition in communicating internal actions such as BSR activities. This limits the business ability to influence stakeholder perception in order to boost its corporate reputation. Hsu (2012), Lai et al., (2010) reveals the association between BSR and brand performance is partially mediated by corporate reputation. This means that consumer perception about firms BSR initiatives positively related to corporate reputation. Therefore, we posit:

H2: Corporate reputation is positively related to Organizational performances.
Figure 1: Research Model

Underpinning Theory
This theory is also known as management theory, proposed that management should not make the making profit its primary concern and view the claims of other groups as constraints on this objectives. Similarly, the theory of stakeholder is being used to guide the study, the theory postulate that managers should tailor their policies to satisfy numerous constituents, in addition, firms involved in repeated relations with stakeholders on the basis of trust and cooperation have an incentive to be honest and ethical, since such behaviour is beneficial to the firm performances (Freeman, 1984; Donaldson & Preston, 1995 & Jones, 1995).

Methodology
Sample and Data Collection
The population of this study consist of 325 leather industry register with SMEDAN as at 2010 in Kano state North-West of Nigeria. This because the state is the centre of commerce and virtually all manufacturing industry in Nigeria has one or more factory in the state (Sani & Suleiman, n.d), Additionally, the city and nature of commercial activities attract people of different religions and ethnic background. Hence, to this extent, it could be said the sample that will be derived from this population will be relatively homogeneous. The study employs a simple random sampling technique, in concurrence with sample selection formulae, which is stated as follows, Yamane (1967).

\[
n = \frac{N}{1 + N (e)^2}
\]

Where: \( n \) = Sample size; \( N \) = Population of the study; \( e \) = Level of precision.

\[
n = \frac{325}{1 + 325(0.05)^2}
\]
Therefore, base on the above formulae a representative of sample size of one hundred and seventy nine (179) was selected from the population of 325 industry in the state with precision level of ±5% and the level of confidence is 95%. Consequently, out of 179 copies of questionnaire distributed, a total of one hundred and twenty five copies of questionnaires were returned completed, representing 69.8% percent response rate which is significant. 9 copies of questionnaire were discarded due to number of missing data. Before testing, variables were examined through various SPSS version 18 measures for a better precision of data entry, missing value, and fit between distributions and the assumptions of structural equation modelling. 4 cases were identified through the process of mahalanobis distance analysis, as multivariate outliers with a P value <0.05. These respondents were automatically deleted. Leaving 112 cases for analysis.

**Measurement**

**Perceived ethics**

Perceived ethics is a company decision to ethical values and business practices. Some businesses promote an ethical culture/climate by establishing significant values that persuade organizational members’ ethical beliefs and actions (Trevino & Nelson, 2004). Perceived BSR which will measures a firm performances will be adapt from the scale developed by (Maignan, 2001; Stanaland et al., 2011), this is because the scale has been use by other researched and found to be reliable (Stanaland et al., 2011). The scale has four items. And will be directly capture organisation perception of how strongly they view BSR, respondent will rate their firms performances.

**Corporate reputation**

Corporate reputation is joint representations of business long-ago activities and potential prospects that explain how key resource providers interpret a business initiatives and assess its ability to deliver valued customers (Petrick, 2002). Dodds, Monroe & Grewal (1991) refer it as the prestige or status of a product or service as perceived by the purchaser based on the image of the supplier. Similarly Lai, Chiu, Yang & Pai (2010) sees corporate reputation as the general intuition dazzling the perception of a combined stakeholder group. Therefore, in the present study we refer corporate reputation as the general impression reflecting the key stakeholder perception about the business initiatives particularly on the social responsibility issue and the assessments about the business product or services. Five items were adapted from Petrick (2002) to measure the construct, and was tested by Hsu (2012) and to achieve internal consistence reliability and convergent validity.
**Organizational performances**
Organizational performance, or firm performance as we refer to it in this study, is a division of organizational efficiency that covers operational and financial outcomes (Cameron, 1986). This can be characterized into two main groups which are financial performance and non-financial performance. Financial performance is, for example, profitability, liquidity and financial risk, which are earnings, associated to enterprises’ efficiency per operation. Non-financial performance is usually associated with customer base, brand devotion, image and reputation, technology and initiatives development as well as quality of human resources (Kaplan & Norton, 2000). For this reason, the study will adapt this scale because over the years many researchers have suggested that performance measurement should include both financial and non-financial measurement investigation which is measure by 7 items (Kaplan & Norton, 1992; Venkantrannan & Ramanujan, 1986).

**Analysis Method**
Data were analyzed using Structural Equation Modeling (SEM), through Partial Least Square (SmartPLS 2) due to the small sample size, Ringle, Wende and Will, (2005).

Figure 2: Revised Model
Results and Discussion

Demographic Profile of Respondents

The table 1 shows the profile of respondents, the result reveals that 77.7% of the respondents have less than 5 years of existence; this implied that majority of the respondents are not long in the operations. In terms of ownership structures 75.9% of respondents are individual owner, while 12.5% are partnership business. With regards to no. of employees 80.4% have less than 20 employees; this indicates the uniqueness of one man business. Furthermore, most of the leather industry has less than 1 million, Nigerian currencies as their Assets and represent 47.3 %.( see table 1).

<table>
<thead>
<tr>
<th>Demographic profile</th>
<th>Category</th>
<th>No. Of respondents</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years of existences</td>
<td>Less 5 years</td>
<td>87</td>
<td>77.7</td>
</tr>
<tr>
<td></td>
<td>5-10 years</td>
<td>15</td>
<td>13.4</td>
</tr>
<tr>
<td></td>
<td>11-20 years</td>
<td>6</td>
<td>5.4</td>
</tr>
<tr>
<td></td>
<td>21-40 years</td>
<td>4</td>
<td>3.6</td>
</tr>
<tr>
<td>Location</td>
<td>Kano</td>
<td>103</td>
<td>92</td>
</tr>
<tr>
<td></td>
<td>Lagos</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Ownership</td>
<td>Individual</td>
<td>85</td>
<td>75.9</td>
</tr>
<tr>
<td></td>
<td>Partnership</td>
<td>14</td>
<td>12.5</td>
</tr>
<tr>
<td></td>
<td>Joint venture</td>
<td>3</td>
<td>2.7</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>10</td>
<td>8.9</td>
</tr>
<tr>
<td>No. Of employees</td>
<td>Less 20</td>
<td>90</td>
<td>80.4</td>
</tr>
<tr>
<td></td>
<td>21-40</td>
<td>8</td>
<td>7.1</td>
</tr>
<tr>
<td></td>
<td>41-60</td>
<td>5</td>
<td>4.5</td>
</tr>
<tr>
<td></td>
<td>61-80</td>
<td>1</td>
<td>0.9</td>
</tr>
<tr>
<td></td>
<td>81-100</td>
<td>7</td>
<td>6.3</td>
</tr>
<tr>
<td></td>
<td>100 &amp; above</td>
<td>1</td>
<td>0.9</td>
</tr>
<tr>
<td>Activities</td>
<td>Food &amp; beverages</td>
<td>58</td>
<td>51.8</td>
</tr>
<tr>
<td></td>
<td>Tobacco</td>
<td>10</td>
<td>8.9</td>
</tr>
<tr>
<td></td>
<td>Textiles</td>
<td>6</td>
<td>5.4</td>
</tr>
<tr>
<td></td>
<td>Weaving &amp; dressing</td>
<td>24</td>
<td>21.4</td>
</tr>
<tr>
<td></td>
<td>Leather &amp; handbags</td>
<td>9</td>
<td>8.0</td>
</tr>
<tr>
<td></td>
<td>Non-metric recycling</td>
<td>1</td>
<td>0.9</td>
</tr>
<tr>
<td></td>
<td>others</td>
<td>3</td>
<td>2.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1</td>
<td>0.9</td>
</tr>
<tr>
<td>Assets</td>
<td>Less 1 million</td>
<td>53</td>
<td>47.3</td>
</tr>
<tr>
<td></td>
<td>1-100m</td>
<td>34</td>
<td>30.4</td>
</tr>
<tr>
<td></td>
<td>101-200m</td>
<td>18</td>
<td>16.1</td>
</tr>
<tr>
<td></td>
<td>201-300m</td>
<td>1</td>
<td>0.9</td>
</tr>
<tr>
<td></td>
<td>301-400m</td>
<td>3</td>
<td>2.7</td>
</tr>
<tr>
<td></td>
<td>401-500m</td>
<td>1</td>
<td>0.9</td>
</tr>
<tr>
<td></td>
<td>501 &amp; above</td>
<td>2</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Goodness of Measures

The paper attempt to ascertain the construct validity, we follow a two-step modelling approach as suggested by Anderson and Gerbing (1988). We started by assessing the convergent validity and reliability, followed by the discriminant validity, then internal
consistency reliability as shown in Table 1 and Table 2 respectively. As a rule of thumb, construct validity is ascertained if the loadings are greater than 0.7, composite reliability is greater than 0.7, average variance extracted is greater than 0.5 and Cronbach alpha is greater than 0.7 (Bagozzi, Youjae, & Phillips, 1991; Fornell & Larcker, 1981; Gefen, Straub, & Boudreau, 2000; Hair, Anderson, Tatham, & Black, 1998; Nunnally, 1978).

Table 2: Result of CFA for Measurement Model

<table>
<thead>
<tr>
<th>Construct</th>
<th>Items</th>
<th>Factor loadings</th>
<th>Internal reliability Cronbach alpha</th>
<th>Composite Reliability</th>
<th>Average Variance Extracted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived ethics</td>
<td>PE01</td>
<td>0.811</td>
<td></td>
<td>0.902</td>
<td>0.697</td>
</tr>
<tr>
<td></td>
<td>PE02</td>
<td>0.866</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PE03</td>
<td>0.910</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PE04</td>
<td>0.750</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational Performance</td>
<td>OG05</td>
<td>0.926</td>
<td>0.895</td>
<td>0.935</td>
<td>0.828</td>
</tr>
<tr>
<td></td>
<td>OG06</td>
<td>0.943</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>OG07</td>
<td>0.816</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Reputation</td>
<td>RT03</td>
<td>0.924</td>
<td>0.894</td>
<td>0.934</td>
<td>0.827</td>
</tr>
<tr>
<td></td>
<td>RT04</td>
<td>0.952</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>RT05</td>
<td>0.849</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: OG01, OG02, OG03, OG04, RT01 and RT02 were deleted because of low loadings of less than 0.50 (Fornell & Larcker, 1981); a. Composite Reliability (CR) = (square of the summation of the factor loadings)/[(square of the summation of the factor loadings) + (square of the summation of the error variances)]; b. Average Variance Extracted (AVE) = (summation of the square of the factor loadings)/[(summation of the square of the factor loadings) + (summation of the error variances)].

In view of, the reliability analysis, we established discriminant validity by calculating share variance between each pair of constructs and verifying that it was lower than the average variance extracted from the individual construct (Bagozzi & Lynn, 1982; Fornell & Larcker, 1981). As shown in Table 3, the squared correlations for each construct are less than the square root of average variance extracted by the indicators measuring that construct indicating adequate discriminant validity. In general, the measurement model demonstrated adequate reliability, convergent validity, and discriminant validity.

Table 3. Discriminant validity of construct

<table>
<thead>
<tr>
<th></th>
<th>Ethics (1)</th>
<th>Performance (2)</th>
<th>Reputation (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethics (1)</td>
<td></td>
<td>0.835</td>
<td></td>
</tr>
<tr>
<td>Performance (2)</td>
<td>0.207</td>
<td>0.910</td>
<td></td>
</tr>
<tr>
<td>Reputation (3)</td>
<td>0.315</td>
<td>0.570</td>
<td>0.909</td>
</tr>
</tbody>
</table>

Table 5. Model Hypotheses

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Path Coefficient</th>
<th>S.E</th>
<th>T. Value</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>PF&lt;-- PE</td>
<td>0.0319</td>
<td>0.0957</td>
<td>0.3331</td>
<td>Not Supported</td>
</tr>
<tr>
<td>PF &lt;-- RT</td>
<td>0.5597</td>
<td>0.1043</td>
<td>5.3641</td>
<td>Supported</td>
</tr>
</tbody>
</table>
This study examines the relationship between perceived ethics, corporate reputation on organizational performance in Nigerian leather industry. The interpretation of the hypotheses results is summarized in table 5 above. The result reveals that there is a significant relation between corporate reputation and organizational performance (Path coefficient = 0.5597; t = 5.3641). This finding is in line with the study of Hsu (2012), Rettab et al., (2009). Hence, H2 is supported. Similarly, the relationship between Perceived ethics and organizational performance found insignificant relation (Path coefficient = 0.0319; t = 0.3331) and result is not in line with (Standland et al., 2011 & Valentine & Fleischman, 2008), thus H1 not supported.

**Conclusion, Managerial, Theoretical Contribution & Direction for Future Studies**

In this study the paper examines the relationships between perceived ethics, corporate reputation on performance of leather industry in emerging nation particularly Nigeria. The results are fairly, BSR has a significant and positive relation with corporate reputation and organizational performance. This result is in line with previous empirical studies conducted in western developed nations showing a positive relation BSR efforts and organizational performances, unexpectedly, Perceived ethics not significant link to organizational performance leather industry in Nigeria. Further, this study reveals the impact of BSR on organizational performance in emerging nation like Nigeria which is similar to that of developed nation, e.g. USA & Western Europe. Equally this study has extended the current body of knowledge beyond developed nations.

Consequently, researches and practitioners in developed nation have a numerous of evidence on the relationship between social responsibility and organizational performance, to the best of our knowledge this study provides an evidence of this relationship in a non-developed nation context. Hence, this finding raise doubts about the validity of the assertion that, as a result of the absence of strong institutional support for BSR, and presence of weak and in effectual laws to guard against unethical practices (Foo, 2007).

**Managerial/Theoretical Contribution**

The results indicate that perception concerning BSR initiatives of Leather industry have a positive effect on Corporate reputation but not significant effect on perceived ethics of leather industry in Nigeria. Thus this study has contributed in literature of social responsibility and smaller firms. The findings of this study have the following managerial for leather industry. First, the fact, that BSR activities improve corporate reputation of manufacturing industry, encourages managers of leather industry to continue investing in BSR actions. Stakeholder tend to be more satisfied with business that are more socially responsible, perceived these business more favourable in terms of corporate reputation, and reward these business. Secondly, managers should employ BSR activities to build corporate reputation without any other purpose when designing corporate reputation. This implication is in line with business ethics from a Kantian perspective (Bowie, 1999), and explains why BSR initiatives may be viewed as real options (Husted, 2005). BSR actions act as safety net to buffer and protect business from unpredictable negative events (Fombrun, Gardberg & Server, 2000). For the role of real option or policy maker in leather industries that BSR actions are key elements that lead to intangible assets that BSR accrues, such as corporate reputation, perceived ethics, and legitimacy.
Limitations & Direction of future studies

This study like any other research has some limitations that should be well-known. First, the data for the study were mainly collected from selected leather industry in Kano metropolis, Nigeria. Thus, this is based on data from a single country and caution must be taken when generalizing the results of this study to other developing nation because it’s cross-sectional in nature. Second, the direct effects of the independent variables on the dependent variables are difficult to conclude. In order to overcome some of these limitations, future studies of increasing the sample sizes and examines other industries or across different industries. In addition, future studies should employ a longitudinal research design, so that the direct effect of the independent variables on the dependent variables could be concluded. In addition, future research should include other variables such as trust and proactive strategies.

References


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http://dx.doi.org/10.2307/2393203


Brand equity is considered to be an important criterion for evaluating the power of a brand, and its examination is assumed to be a primary step for effective brand management. Previous researches have demonstrated the importance of understanding the concept of brand equity and its antecedent factors. The purpose of this paper is to analyze the effect of two factors namely product quality and service quality on brand equity. It critically reviews past literature that examined the relationship between these factors and briefly summarizes their relationship with brand equity. The analysis reveals that product quality and service quality have significant positive effect on developing brand equity. In general, this paper provides some insights and useful guidelines for business practitioners to benefit from product quality and service quality for improving their brand equity. Finally, conclusion and future research directions are presented.

Keywords: Brand equity, product Quality, Service Quality

Introduction

Branding concept has appeared in the literature for many years ago, and it has turned out in the recent years to be among the key issues in strategic brand management (Keller, 1998). In the current business scenario, powerful brands are assumed to play a significant role in formulating marketing strategy and are thought to be the key assets and sources for improving competitive advantage (Harun, Kassim, Igau, Tahajuddin, & Al-Swidi, 2010). Several scholars such as Aaker, Farquhar, Yoo and Donthu, Keller, de Chernatony, Simon and Sullivan, and Kapferer, have noteworthy contributed to the development of branding theory.

A brand was defined earlier as “a name, term, sign, symbol, or design, or a combination of them intended to identify the goods or services of one seller from among a group of sellers and to differentiate them from those of the competitors” (Kotler 1994, p. 444). Customers usually assess a brand according to their actual experience with it of whether it provides products or services beyond their expectation and whether it performs what is assumed to deliver (Siddiqi, 2011 Aaker, 1996). In fact, strategic brand management has a critical role in influencing the creation of brand equity (Keller, 2008). As a consequence, considering the
increasing interest in firms’ branding these days and the high competition in markets, it has become very important for business practitioners as well as academic scholars to understand how to build strong brand equity and improve it to face business rivals.

However, this paper sheds light on two important factors that influence the creation of brand equity. This includes product quality and service quality. Previous research has established the significance of these factors with particular to different industry contexts and indicated that quality is a main differentiator tool by which successful brand are built and their performance in the global market is improved. Quality is also considered as a key marketing positioning tool through which the selection of a particular brand depends on it. Through product and service quality brands can beat competitors, attract more customers, and influence their perception towards the brand. This would provide long term benefits and forms the basis for creating competitive advantage and thus improving brand equity.

This paper offers a critical review of the literature on brand equity, product quality, and service quality and concludes with some suggestions for future research. Moreover, it discusses the conceptualization and importance of brand equity, product quality, and service quality. It also critically reviews past studies that examined the link between the above mentioned variables using different research methodologies and contexts. This paper starts by discussing concept of brand equity, product quality, and service quality with reference to various definitions given by scholars on the variables. The following section presents critical review of literature on the relationship between brand equity and product quality as well as service quality. In the last section, conclusions and suggestions for future research are presented.

**Literature Review**

**Brand Equity**

Brand equity is considered to be an important area in strategic brand management since 1980s and its conceptualization and measurement have gained the attention of numerous academicians and business practitioners for several years. In fact, brand equity has been considered as a key factor for dealing with aggressive competition, this is by employing the relevant strategies and brand improvement programs (Fetscherin & Toncar, 2009). One of the most salient advantages for high brand equity is represented in the ability of an organization to enjoy high profit margins, develop customer loyalty, minimize competitive threats, and establishing better customer response to advertising (Gill & Dawra, 2010). From the perspective of individual customers, this intangible asset can be the foremost criteria for choosing a particular brand over others.

Brand equity has primarily been defined by Aaker (1991, p.15) to refer to “a set of 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 that customers of the firm”. Keller (1993, p.2) on the other hand, defined brand equity as “the differential effect of brand knowledge (brand awareness and brand image) on consumer response to the marketing of the brand”. Besides, Rust, Zeithaml, and Lemon (2000) stated that brand equity represents the subjective evaluation of a brand according to the benefit that customers perceive. Such a subjective evaluation can be influenced by different marketing events and by creating a positive customer experiences toward the products and service (Holehonnr, Raymond, Hopkins & Fine, 2009).
As declared by Aaker (1991), a set of dimensions make up the variable of brand equity. These dimensions include brand associations, brand awareness, brand loyalty, perceived quality, and other proprietary brand assets. These dimensions represent the fundamental cornerstones and key elements in the formation process of brand equity and thus creating sustainable competitive advantage. Keller (1993) demonstrated that in order to gain positive brand equity, it is necessary to develop customer awareness about a brand by creating some favourable, strong, and unique brand associations in their mind. Srivastava and Shocker (1991) believe that brand equity is composed of two main elements – brand value and brand strength. Yoo and Donlu (2001) on the other hand, established that brand equity can be built, maintained, and improved by strengthening its dimensions.

**Product Quality**

Product quality has gained enormous attention from several academicians since 1980s (Shaharudin Hassan, Mansor, Elias, Harun, & Aziz, 2010). Product quality refers to the total attributes and features of a product which is basically created to meet the needs of business customers (Winder & Judd, 1996; Chavan, 2003). Aaker (1991, p. 85) defined it as “the consumer’s perception of the overall quality or superiority of a product or service with respect to its intended purpose over other alternatives”. In general, a product is considered to be of high quality when it meets or exceeds the customers’ expectations (Jahanshahi, Gashti, Mirdamadi, Nawaser, & Khaksar, 2011). Shaharudin et al., (2010) added that that product quality is the foremost important factor for choosing a certain brand mainly in a market environment which is characterized by huge competition.

Product quality has also been considered as an essential marketing positioning tool for influencing consumer behaviour (Shaharudin, Mansor, Hassan, Omar, & Harun, 2011). Certainly, one of the primary means for enhancing brand image is providing product with high quality (Baltas & Argouslidis, 2007; Junyean, 2007). This argument was supported by Eze, Tan, and Yeo (2012) indicating that customers usually take decisions to select familiar brands, because they believe that well-known brands highly focus on launching high quality products. Moreover, product quality has the potential to perform a strategic role for creating sustainable competitive advantage, this is because it provides a better level of functional utility and superior value to respected customers (Wen-Cheng, Chien-Hung, & Ying-Chien, 2011; Hilman, 2009; Eze et al., 2012).

As suggested by Garvin (1984), customers usually evaluate brand equity according to the following eight dimensions: durability, serviceability, performance, aesthetics, features, perceived quality conformance, and reliability. Similarly, several studies have suggested that customers use a combination of several elements to measure product quality such as: good performance, good durability, good specification, good features, and aesthetics (Crosby, Raffaele, & Michael, 2003), high quality product, dependable and consistent product, and innovativeness of the product (van Riel, Mortanges, & Streukens, 2005), reliability, quality of workmanship, functionality, dependability, and durability (Kenned et al., 2001). Furthermore, product quality can be measured by customers primarily according to the following dimensions: perishability, digitalizability, tangibility, and ease of use (Yadav & Varadarajan, 2002). Hence, it is important to ensure the quality in products provided for customers and take into consideration the elements mentioned above. This in fact influences consumer’s perception provides a basic for creating sustainable competitive advantage.

**Service Quality**

Providing customers with service quality is considered to be an essential strategy for long-term business success, particularly in markets which are characterized by high competition.
Service quality provides customers with improved benefits by creating a reason to buy the products of a certain brand and by which it forms the basis of differentiation and enhanced competitiveness (Kayaman & Arasli, 2007). Undoubtedly, firms that are keen to acquire competitive advantage, should give substantial attention towards offering superior quality of services to their customer, in order to develop and maintain their position in the long run (Ishfaq, Muhammad, Ahmad, Muhammad, Naveed, & Wasim, 2010; Taleghani, Largani, & Mousavian, 2011; Hilman, 2009).

Parasuraman, Zeithaml, and Berry (1988) developed a SERVQUAL model for measuring or evaluating service quality, this is by identifying five dimensions that relate service characteristics with customers’ expectations. The dimensions include: empathy, responsiveness, tangibles, assurance, and reliability. In certain earlier studies, service quality has been conceptualized as the degree to which the services provided by a brand meet or exceed customer’s expectations (Dotchin & Oakland, 1994; Lewis & Mitchell, 1990). Service quality was also been defined by Bitner and Hubbert (1994) to refer to the general impression shaped by customers towards the genuine utility and superiority of firm’s services.

Owing to the fact that offering service quality has been a strategic priority for many firms, it has become necessarily important to understand and assess the role of service quality in driving and creating brand equity (Chiou & Droge, 2006). The main goal of the investment in service quality is to develop the perceptions of customers towards the service quality provided by a firm and improve their experiences with that services (He & Li, 2011). Besides, a firm’s investment in offering high services quality to customers may enhance customers’ perception, and creates favorable brand associations (He et al., 2011; Ostrowski, O’Brien, & Gordon, 1993; Bell, Auh, & Smalley, 2005; Dean, 2002).

Although service quality has received a large attention in previous researches, only few studies have intended to investigate its effect on brand equity (He & Li, 2011). Furthermore, most of the past studies have mainly focused on determining the measurements of service quality in contexts of service industries (He & Li, 2011; Nawaz & Usman, 2011; Vatjanasaretagul et al., 2007; Malik, Naeem, & Nasir, 2011; Kayaman and Arasli, 2007). Apparently, there is a gap in the literature on examining the relationship between service quality and brand equity, only few studies has investigated the relationship between both constructs especially in manufacturing contexts (He & Li, 2011).

**Product Quality and Brand Equity**

Product quality is regarded as an important concept for brands seeking to become successful and improve their performance (Hilman, 2009). Higher quality products increase customers’ delight and develop their brand loyalty (Shaharudin et al., 2010; Jahanshahi et al., 2011). Moreover, offering high quality products can influence customers’ purchase decisions particularly in the case of brands having positive brand image, because they assume that familiar brands are highly concentrate on providing products with high quality (Eze et al., 2012). Accordingly, brands enjoying high quality product image can affect consumers’ overall evaluation, and gain a benefit of decreased purchase risk (Loudon & Della-Bitta, 1988).

Past studies reported that product quality has a significant effect on building brand equity, and thus establishes the basis of creating a successful brand (Nowak, Thach, & Olsen, 2006). Product quality permits brands to improve their competitiveness and endows them with various benefits over rivals (Tan, Liew, William, Michelle, & Tan, 2012). For instance,
product quality plays a noteworthy role in the business markets by affecting brand reputation (Hoq et al., 2010). As mentioned above, customers usually prefer to buy products of high quality over those having less quality. Besides, it was demonstrated earlier that the product quality not only improves business performance, but also significantly influence brand loyalty, and customer’s purchase intentions (Mittal & Walfried, 1998; Eskildsen et al., 2004). Sustaining product quality will increase customer satisfaction and generate higher customer loyalty (Kotler, Armstrong, Saunders, & Wong, 2005; Chumpitaz & Paparoidamis, 2004).

Several studies have also confirmed that product quality significantly affect brand equity (Shaharudin et al., 2010; Evanschitzky & Woisetschläger, 2007; Eze et al., 2012; Jahanshahi et al., 2011; Tan et al., 2012; Eskildsen, Kristensen, Juhl, & Ostergaard, 2004; Kim & Kim, 2005; Chumpitaz & Paparoidamis, 2004; Baltas & Argouslidis 2007; Nowak et al., 2006; Nowak & Washburn 2002). For instance, Jahanshahi et al. (2011) studied the effect of product quality on brand equity in the context automobile sector in India. The data in their study were collected through survey questionnaire from car owners in India. Generally, the findings indicated a significant positive relationship between product quality and brand equity (brand loyalty).

Moreover, Tan et al. (2012) have conducted a study to examine the path relationship between product quality and brand equity in shopping complexes in Malaysia. As a result of the study, product quality was found to be significantly and positively related to brand equity assets namely brand loyalty and brand awareness; however the relationship was insignificant with brand image. This finding was supported by Grewal, Krishnan, Baker, & Borin (1998) who indicated a significant positive effect of product quality on building brand awareness, while it contrasts with that of Tan et al. (2012) who found that product quality builds a strong brand image as a result of the benefits and value provided to customers, along with the positive and unique associations related to a brand as they perceive.

Product quality influences customers’ attitude toward the brand and satisfied customers usually react positively toward the marketing activities of that brand. Furthermore, Kim and Kim (2005) demonstrated that the existence of quality in a particular product positively affect the formation process of brand equity. Naumann (1995) demonstrated that customers assess products according to their perceptions of product quality. product quality was confirmed as an important aspect of a brand reputation assuming that it plays a noteworthy role in shaping brand preference in consumer minds (Baltas & Argouslidis 2007) and is considered as the key factor for purchasing decision (Omar, 1994).

Hence, the review of literature in this stream of research reveals that a large body of research indicated significant relationship between product quality and brand equity. In highly competitive markets, it has become very essential for brands to relate their strategies to product quality and assess the perception of customers frequently in order to obtain their feedback and recommendations. This process provides a platform for business to improve their performance and create competitive advantage. This review confirms the importance of this variable in shaping brand equity as well as improving overall brand image. Thus, it is recommended that brand managers should continuously carry out surveys in order to be aware of customer evaluations towards products, because customer needs change over time. Further studies can also look into what dimensions that compose overall product quality and investigate their total effect on brand equity.

**Service Quality and Brand Equity**
Previous literature indicated that most of the studies on service quality have mainly focused on the measurements of this variable in service contexts (Nawaz & Usman, 2011; He & Li, 2011; Malik et al., 2011), and it has to some extent ignored the relationship between service quality and brand equity in the context of manufacturing sectors. As mentioned by He and Li (2011), there is limited studies that examined the relationship between brand equity and service quality particularly in manufacturing sectors.

In particular, previous studies have examined the relationship between service quality and brand equity, and revealed inconsistent findings. For example, several scholars found that service quality is significantly and positively related with brand equity (Nowak et al., 2006; Mourad, Ennew, & Kortam, 2011) However, other studies reported that there is no relationship between service quality and brand equity (Hosseini & Zareebaf, 2011; Vatjanasaregagul & Wang, 2007). As stated by Vatjanasaregagul and Wang (2007), further studies should focus on examining and identifying the path relationship between service quality and brand equity in order to clearly verify if there exists any significant relationship between both variables.

Moreover, Alexandris, Douka, Papadopoulos & Kaltsatou, (2008) confirmed the existence of significant relationship between service quality and brand association. Intagliata, Ulrich, & Smallwood (2000) on the other hand proved that service quality plays an important role in creating a leadership brand. This result was supported by Hosseini and Zareebaf (2011) who found that presented services significantly influence the dimensions of brand equity (brand awareness, brand association and brand loyalty). In a similar manner, Hoq et al. (2010) reported that service quality had significant positive effect on firm’s reputation.

Certain studies have found that service quality dimensions (tangibles and assurance) didn’t have any significant effect on brand image (Malik et al., 2011). However, reliability, responsiveness, and empathy perceptions were significantly related with brand image (Malik et al., 2011). In contrast, Li and Krit (2012); and Rehman (2011) found that service quality dimensions namely assurance, empathy, tangible, reliability, and responsiveness, are positively related with brand image. On the other hand, Kayaman and Arasli (2007) pointed out that only three dimensions of service quality (tangibility, empathy, and reliability) had significant indirect influence on brand image. Hoq et al. (2010) reported that service quality significantly and positively affect firm’s reputation.

In addition, several studies confirmed that service quality has significant positive effect on certain dimensions of brand equity such as brand loyalty (Roostika 2011; Hu, 2011; Akbar & Parvez, 2009). This result is in line with that of Li and Krit (2012); Akbar and Parvez (2009) who found that service quality, reliability, responsiveness, empathy, tangible, and assurance had positive impact on brand loyalty. Besides, service quality was previously found as a significant predictor of brand associations (Alexandris et al., 2008), and plays a critical role in creating brand leadership (Intagliata, Ulrich, & Smallwood, 2000).

The above discussion shows that most of the studies agree on the importance of service quality in affecting brand equity with regard to various sectors. When customers perceive the services provided by a brand as of high quality, their sensitivity towards price will be decreased and they will recommend others to consider that brand during purchase decisions according to their useful experience. For this reason, service quality is assumed to be one of the main factors that might influence the creation of brand equity. However, new research can better look into the relationship between service quality and brand equity through making a
comparison studies between Eastern and Western customers. Besides, to gain better understanding on the relationship between both variables, further studies can test the theoretical relationships with a relatively homogenous group of customers (He & Li, 2011).

**Conclusion and Directions for Future Research**

In conclusion, this paper focuses on analyzing the influence of product quality and service quality on the creation of brand equity. The concepts of product quality and service quality still hold significant importance as effective and efficient strategies in today’s marketplace. Previous researches have also demonstrated that these variables play a key differentiation tools and enable brands to gain competitive advantage and improve their equity. Our analysis in general reveals that product quality and service quality have significant positive effect on building brand equity and influencing consumer behaviour with particular to different industry contexts. Successful brands highly emphasize on quality assurance attached in the product and services they provide to respected customers, because this is what customers really look for when they buy a product or service.

Based on the critical analysis of literature, it shows that most of the studies on service quality have been conducted in service contexts, such as higher education, banking, telecommunication, and hospitality contexts, and somewhat ignored the investigation of service quality in manufacturing sectors. In fact, customers value the services provided by brands when they purchase products particularly the durable ones because it reflects the power of a brand and its concern towards customers. Hence, brands from service as well as manufacturing sectors should focus on this variable, and include it in the main strategies for the purpose of driving business success and competitive advantage. Therefore, to increase the appeal of the brands, it is suggested that companies must keep maintaining the quality of the products and making sure that the products were resourced fairly. By doing so, consumers will confidently be more eager to buy the products and have better perception towards the brands.

This paper offers few suggestions for future researches in order to gain a better understanding towards the process of brand equity development through product quality and service quality. For instance, future research should provide some important strategic guidelines on how to compete effectively for long-term success in a global market, in the presence of product quality and service quality. Future research can also look into other factors that may have significant effect on building brand equity. An understanding of how brand equity is influenced by market conditions such as cultural and socioeconomic differences would be an interesting outcome to that of how brand equity is created through product quality and service quality.

**References**


The Importance of Product Quality and Service Quality in Developing Brand Equity


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A DISCRIMINANT MODEL OF PERFORMANCE FOR EMERGING ECONOMY JOINT VENTURES

ABSTRACT

This study examines the empirical links between market-focused learning, internal learning, external learning, product and production process innovation, managerial and marketing innovation and marketing performance in Chinese international joint ventures (IJVs). Data were gathered via a self-administered mail survey directed to the Chief Executive Officer of 313 international joint ventures in China. The sample came from a wide cross section of industries. The findings indicate that internal and external learning as well as product and production process innovation, managerial and marketing innovation all had a significant impact on IJV marketing performance.

Key Words: Market-focused Learning, Internal Learning, External Learning, Innovation, Marketing Performance

INTRODUCTION

The organizational learning approach to innovation suggests that the degree of innovation reflects the extent of new knowledge embedded in an innovation (Dewar and Dutton, 1986). Radical and incremental innovations pertain to distinctions along a theoretical continuum of the level of new knowledge embedded in an innovation (Dewar and Dutton, 1986, p. 1423). Radical innovations imply that a firm is engaging in generative learning levels, the highest level of organizational learning.

The literature also suggests a strong relationship between organizational learning processes and organizational capabilities (Day, 1994; Leonard-Barton, 1992; Prahalad and Hamel, 1990). Researchers argue that organizational learning itself is a core capability of the organization. For example, Itami and Numagami (1992) suggest that the knowledge inside human heads in combination with technical systems is arguably the most fundamental of the core capabilities of the firm. Extending this view, Senge and Sterman (1991) suggest that the most critical core competence is organizational learning, the process whereby shared understandings change. In fact, organizational learning may be usefully considered a ‘meta-competence’ or ‘meta-skill’ that directs the resource conversion activities of the firm and is a source of sustainable competitive advantage (Crossan et al., 1992; Senge, 1990). This discussion suggests that organizational learning theory provides a sound theoretical framework to explore the relationship between learning, innovation and performance in IJVs.
The conceptual framework is premised on the view that IJVs operating within a turbulent industry tend to challenge their current practices and tend to pursue greater learning and more innovative ways of serving their customers. Environmental turbulence underlies a major transformation in the competitive environment that determines strategic success (Keirnan 1993) and to which manufacturers’ strategies must respond (Johannessen, Olsen, and Olaisen, 1999). Chandler (1990) also found that a discontinuous transformation of the structure and dynamics of organizational behaviour was necessary. Chandler (1990) suggests that organizations must not only strategize discontinuously as the level of their environmental turbulence demands, but they must also have the ‘internal capabilities’ to enact their strategies (Aburas, 2010). Aburas (2010) argues for an integrated corporate performance framework that included internally-focused performance dimensions while taking into account various external performance dimensions, including relationships with customers and other key stakeholders.

In other words, in today’s competitive turbulent environment, there is a compelling need for manufacturers to constantly update their mental models with new knowledge of the right things to do and how to do those things right. This mental model updating process by firms via their senior managers is commonly known as organizational learning (Nonaka and Takeuchi, 1995; Senge, 1990). Since in a turbulent environment, the need to update mental models is very frequent, organizational learning needs to become an organizational ‘habit pattern’.

Organizational learning capabilities emanate from multiple sources. As Dibella, Nevis and Gould observe, “some organizations acquire knowledge from their external environment; other organizations generate or create knowledge internally. Many organizations rely on both orientations or processes to varying degrees” (1996: 364). March (1991) suggests that learning from external sources (termed ‘exploration’) and internal sources (termed ‘exploitation’) are equally important for organizational change. March (1991) argues that organizations must continually balance between exploitation and exploration for survival and prosperity. March (1991) further suggests that a dynamic industry environment allows the firm more opportunities for exploration and exploitation. This suggests that the extent to which an organization possesses capabilities for learning from external and internal sources may depend on the strategic learning choices of the firms.

The literature on innovation-based competitive strategy suggests that organizations learn from three sources and these sources provide a sound basis to capture a firm’s learning capability structure. Based on the sources of learning discussed above, the learning capabilities of the firm are identified as, market focused learning capability, internally focused learning capability and external learning. Market-focused learning capability and external learning capability are externally focused learning capabilities, whereas internally focused learning capability reflects a firm’s capacity to learn from internal sources.

Accordingly the conceptual framework used in this paper incorporates eight constructs, namely, market focused learning capability, internally focused learning capability, external learning capability, organizational innovation intensity comprised of product, production process, marketing and managerial system innovations and an IJV’s marketing performance. This framework suggests that IJVs operating within a turbulent industry environment tend to develop distinctive capabilities in market focused, internally focused and external learning. These learning capabilities enable the IJV to achieve higher levels of marketing performance.
Furthermore, organizational innovation is defined as the application of ideas that are new to the firm, to create added value either directly for the enterprise or indirectly for its customers, whether the newness and added value are embodied in products, processes, services, or in work organisation, management or marketing systems and this added value has a significant impact on marketing performance.

As such, the question that directs this study is: To what extent is organizational learning and innovation able to discriminate between high and low IJV marketing performance? These theoretical constructs and their relationships are discussed next.

**LITERATURE REVIEW**

**Market focused learning capability**

Learning from markets is cited as a key to innovation and greater firm performance. The literature on the market-driven firm paradigm suggests that “market driven firms stand out in their ability to continuously sense and act on events and trends in their markets. They are also better equipped to anticipate how their markets will respond to actions designed to retain or attract customers, improve channel relations, or thwart competitors” (Day, 1994: 9).

Innovations are deemed to arise as a result of a perceived and sometimes clearly articulated customer need (Myers and Marquis, 1969). To be effective innovators, organizations should constantly scan the horizons for new opportunities to satisfy their customer’s needs (Levitt, 1960). These views are embedded in research on market orientation and organizational performance (Kohli and Jaworski, 1990; Slater and Narver, 1995). Because market orientation reduces the degree of incompatibility of the new product with customer needs, it is likely to enhance speedy adoption and the success of innovations (Cooper and Kleinschmidt, 1987). Sinkula (1994) indicates five reasons which make market-based organizational learning unique in the creation of knowledge. First, it is a core competency pertaining to external foci and it is less visible than most internally focused organizational learning competencies. Second, market-based learning results in fundamental bases of competitive advantage. Third, market-based organizational learning is distinct from other types of organizational learning in that observation of others is essential. Fourth, the market information that resides in organizational memory is typically more difficult to access. Finally, market-based learning is unique in that market-based learning is more equivocal. Market-focused learning capability is defined as the capacity of the firm relative to its competitors, to acquire, disseminate, unlearn and use market information for organizational change. This definition extends the concept of market orientation in that entrepreneurial firms possessing a high level of market-focused learning capability not only learn from markets but also disseminate such knowledge within the organization and integrate the waves of new knowledge acquired into the firm’s value-creating activities thereby enhancing performance.

**Internally focused learning capability**

Internally focused learning capability includes experiential learning (trial and error learning) and experimental learning (developing new ways of doing things) (Dixon, 1992; Huber, 1991). A commonly pursued experimental learning activity in a manufacturing firm is in-house R&D activity. R&D activity is interpreted as a search process to learn and generate cumulative technical advances in specific directions (Hyvarinen, 1990) and a source of technological capability of the firm (Durand, 1988). In-house R&D activity is a key source of knowledge acquisition (Macpherson, 1992) and there is overwhelming evidence to suggest that in-house R&D is essential for effective innovation (Kim, Song, and Lee, 1993) and enhanced performance. By definition, R&D as a flow is directly related to innovation because
it modifies the existing stock of technologies (Allen, 1977). Cohen and Levin (1989) found that incentives for R&D are predominantly shaped by industry-specific characteristics such as the degree of competition, demand and appropriability conditions, and technological opportunities. They found that industry effects explain half of the variance in R&D expenditure. Internally-focused learning capability is defined as the capacity of the firm, relative to its customers, to develop technological and non-technological knowledge through internal sources and to disseminate, unlearn, and use this knowledge for organizational change. This definition moves beyond the scope of traditional R&D activities; that is, firms possessing internally-focused learning capability not only learn from internal sources but also disseminate such knowledge within the firm and this wide dissemination of knowledge has the capacity to enhance performance.

**External learning capability**

There is strong evidence to suggest that the ability to exploit external knowledge is a critical component of organizational performance (Cohen and Levinthal, 1990; Myers and Marquis, 1969). Although in-house R&D and other forms of internally focused learning may be necessary, firms have to access external technological resources and modify them in order to develop the technological capabilities needed to respond to technological changes effectively (Dodgson, 1990; Rothwell, 1989). Collaborative linkages or ‘networking’ improves the innovation potential of the organization (Mowary 1988) and its subsequent performance. Most of the innovations result from borrowing rather than from invention (March and Simon, 1958; Myers and Marquis, 1969). As such, external capability is a source of competitive advantage for the firm (Lipparini and Sobrero, 1994). Building on this viewpoint, external learning is defined as the capacity of the organization, relative to its competitors, to acquire technological and non-technological knowledge through external linkages, and to disseminate, unlearn, and to use such knowledge for organizational change and enhanced performance. This definition makes the use of networking activity for knowledge acquisition explicit. It is suggested that a turbulent industry environment forces the firm to develop a knowledge base which will enable it to exploit emerging market opportunities for enhanced performance. Therefore, external learning is a critical learning capability of the firm in its quest to gain positional competitive advantages in a turbulent industry environment.

**Organizational innovation**

Although the literature suggests that innovations can occur in any value-creating activity, suggesting that it should be conceptualised to cover a broad range of activities (Porter, 1990; Rothwell, 1992; Schumpeter, 1934), past innovation research is biased towards technological innovation. However, firms undertake both technological and non-technological innovations and all such innovations can lead to a competitive advantage (Hyvarinen, 1990). This discussion, whilst suggesting that innovation can be a key source of enhanced firm performance, highlights the need to conceptualise this construct broadly in examining its influence on sustained competitive advantage and performance. In this study organizational innovation is defined as the application of ideas that are new to the firm, to create added value either directly for the enterprise or indirectly for its customers, whether the newness and added value are embodied in products, processes, services, or in work organisation, management or marketing systems.

Our earlier discussion suggested that organizational learning capabilities are prerequisites for innovation. In reality what we may see is that firms operating within a competitive industry environment undertake greater learning though market focused, internally focused and
external learning activities. These learning activities enable the firm to pursue innovative ways of delivering superior products and services which in turn enable the firm to gain positional competitive advantages in the target market.

There appears to be no uniform definition of marketing performance in the literature. There has been a variety of marketing performance measures adopted by previous researchers. These include sales (Zou, Fang, and Zhao, 2003), sales growth (Madsen, 1989; Rose and Shoham, 2002), market share, profitability (Geringer and Hebert, 1991; Johnson and Arunthanes, 1995), technology transfer, durability, organisational learning, access to markets etc. (Johnson, Black, and Sakano, 1993). However, the most frequently used performance measures appear to be economic in nature. As an IJV is a hybrid formed from at least two separate organizations, which may have completely different marketing objectives for the IJV this study uses both economic and strategic measures of marketing performance.

In this study, we define marketing performance as the extent to which the IJV’s objectives, both economic and strategic, with respect to marketing a product/service in the PRC is achieved through the planning and execution of a specific marketing strategy. An IJV usually has a number of objectives set by the individual partners’, which can be economic (i.e. profits, sales, or costs) and/or strategic (i.e., market expansion, access to raw materials, technology transfer, economies of scale, gaining a foothold in a foreign market, blocking a competitor etc.). The extent to which the IJV’s strategic and economic objectives are achieved is therefore a measure of its marketing performance.

Given the issues raised in the literature relating to IJVs the following research question is offered for testing in relation to IJVs in China:

RQ: To what extent is IJV marketing performance in China at an economic level, at a strategic level and at an overall satisfaction with performance level influenced by:

2. External learning.
3. Internal learning.
4. Product innovation.
5. Production process innovation.
6. Managerial systems innovation.
7. Marketing innovation.

RESEARCH DESIGN

The empirical link between learning, innovation and IJV marketing performance were examined via an empirical investigation of 313 IJVs located in the People’s Republic of China (PRC). The administration of the survey was via mail and a survey packet including a personalised cover letter and self-administered questionnaire was sent to the Chief Executive Officer (CEO) of each venture. The sample came from a wide cross section of industries. The questionnaire was developed from existing measures and pre-tested using a small sample before the final instrument was mailed to the sample. All independent variables were measured via seven-point bi-polar scales (Weerawardena, O’Cass, and Julian, 2006).

In this study CEOs were used as the key informants. To reach the most knowledgeable key informants, the questionnaire was directed to the Managing Director of the IJV. From the results of the pre-test, it was expected that the Managing Director would be the person most knowledgeable about the organisation’s marketing performance. The case, where the
Managing Director was not directly responsible for the organization’s marketing function it was expected that the Managing Director, as Chief Executive Officer, would re-direct the questionnaire to the appropriate executive within the organization.

The measures for each of the distinctive organizational learning capabilities encompassed the four learning activities that constitute the firm’s overall organizational learning processes (Huber, 1991; Schein, 1990; Sinkula, 1994; Slater and Narver, 1995). These activities are knowledge acquisition, knowledge sharing, knowledge utilization and unlearning. A key element of the capability constructs is the extent to which a particular capability has been instrumental in outperforming competitors. This approach to measure the distinctiveness of organizational capabilities is based on the work of Snow and Hrebnik (1980).

**Market-focused learning** - High scores on the market-focused learning scale indicated that the firm possessed distinctive capabilities in the acquisition of knowledge on consumer preferences and competitor behavior in terms of the four learning activities indicated above. Firms that scored highly on this scale collected market information frequently and had a thorough understanding of market preferences. The measure developed for this construct was an adaptation of the market learning scale developed by Day (1994). The measure had 8 self-report items that demonstrated acceptable reliability and internal consistency, well above the 0.7 recommended by Nunnally (1967), with a coefficient alpha of 0.92.

**Internal learning** - The internal learning scale captured the extent to which the firm generated knowledge through internal experimental and experiential sources of learning. High scores on this scale suggested the firm’s internal learning capabilities were in some way distinctive. The measure developed for this construct was an adaptation of the internal learning scale developed by Atuahene-Gima (1993). The measure had 8 self-report items that demonstrated acceptable reliability and internal consistency, above the 0.7 recommended by Nunnally (1967), with a coefficient alpha of 0.79.

**External learning** - High scores on the external learning scale indicated that the firm possessed distinctive capabilities in the acquisition of technological and non-technological knowledge through links formed with external organizations. The external learning scale was developed from past literature (e.g., Cohen and Levinthal, 1990; Rothwell, 1989). The measure had 6 self-report items that demonstrated acceptable reliability and internal consistency, above the 0.7 recommended by Nunnally (1967), with a coefficient alpha of 0.72.

**Organizational innovation intensity** - The innovation intensity scale captured the extent of the firm’s product, process, marketing, and managerial system innovations. This definition reflected the importance of a broader conceptualization of innovation that incorporated both technological and non-technological innovations (Damanpour, 1991; Hyvarinen, 1990). High scores on the innovation intensity scale indicated that the firm had introduced radical innovations in its product, process, marketing, and managerial systems. The product innovation measure had 2 self-report items that demonstrated acceptable reliability and internal consistency, above the 0.7 recommended by Nunnally (1967), with a coefficient alpha of 0.88. The process innovation measure also had 2 self-report items that demonstrated acceptable reliability and internal consistency, above the 0.7 recommended by Nunnally (1967), with a coefficient alpha of 0.77. Whilst the marketing and managerial system innovation scales had modest reliabilities at 0.6 each, 0.6 is acceptable for a two-item scale.
(Anderson and Coughlan, 1987) of which both the marketing and managerial system innovation scales were comprised.

**IJV marketing performance** - was assessed using a composite measure of IJV marketing performance. Respondents were asked to indicate their level of agreement with statements identifying the extent to which the IJV had achieved its objectives on a seven-point bipolar scale with scale poles ranging from a small extent (1) to a great extent (7). Respondents then indicated their perceived overall performance of the IJV on a 7-point bipolar scale (1=very poor, 7=very good). Finally, they were asked to indicate the IJVs sales growth and market share growth on a 7-point bipolar scale (1=very poor, 7=very good). These four indicators were then summed into a composite scale for measuring IJV marketing performance (Julian, 2005).

After the pilot test the questionnaire was directed to a purposeful sample of 313 IJVs in the PRC from a wide cross-section of industries, yielding 200 useable questionnaires being returned accounting for an effective response rate of 63.9 percent and considered to be adequate.

**DATA ANALYSIS**

The data were initially analysed using principal components analysis to assess the psychometric properties of the instrument. The primary concern was interpretability of the factors. All items loaded appropriately and no cross loadings above 0.2 were identified with only factor loadings of above 0.5 being accepted. Each scale was reviewed using factor analysis to establish that they were unidimensional. The final reliabilities for all scales were greater than 0.70 with the exception of marketing innovation and managerial innovation, however, an alpha reliability of 0.6 is acceptable for a two-item scale (Anderson and Coughlan, 1987).

The preliminary results indicated that the psychometric properties of the scale were acceptable and as such it was appropriate to examine the research question. To what extent is IJV marketing performance influenced by market focused learning capability, internally focused learning capability, external learning, product and production process innovation and marketing and managerial systems innovation when measured by a performance measure that includes satisfaction with performance, economic performance and strategic output performance.

To explore the influence of market focused learning capability, internally focused learning capability, external learning, product innovation, production process innovation, marketing innovation and managerial systems innovation on IJV marketing performance, a 2-group discriminant analysis was used in order to determine which variables best distinguished between firms with high- versus low- IJV marketing performance. All variables were entered simultaneously in the discriminant analysis so as to determine which variables were the best discriminators, after controlling for all other variables (Jackson, 1983). The antecedent variables of market focused learning capability, internally focused learning capability, external learning, product innovation, production process innovation, marketing innovation and managerial systems innovation were each measured on composite scales created by summing the items, respectively. In the discriminant analysis, the two groups were identified by splitting the groups at the median score for the composite measure of IJV marketing performance.
performance that included overall satisfaction with the success of the IJV, strategic output and economic performance.

Table 1 Discriminant Analysis — Structure Matrix

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Alpha Reliability</th>
<th>Composite Measure of Performance</th>
<th>P&lt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process Innovation</td>
<td>0.77</td>
<td>.727</td>
<td>0.001</td>
</tr>
<tr>
<td>Product Innovation</td>
<td>0.88</td>
<td>.681</td>
<td>0.001</td>
</tr>
<tr>
<td>Managerial Innovation</td>
<td>0.60</td>
<td>.412</td>
<td>0.001</td>
</tr>
<tr>
<td>Marketing Innovation</td>
<td>0.60</td>
<td>.320</td>
<td>0.001</td>
</tr>
<tr>
<td>External Learning</td>
<td>0.72</td>
<td>.306</td>
<td>0.001</td>
</tr>
<tr>
<td>Internal Learning</td>
<td>0.79</td>
<td>.270</td>
<td>0.001</td>
</tr>
<tr>
<td>Market Learning</td>
<td>0.92</td>
<td>.051</td>
<td>NS</td>
</tr>
</tbody>
</table>

Pooled within-groups correlations between discriminating variables and standardized canonical discriminant functions

Variables ordered by absolute size of correlation within function.

All variables used for the discriminant analysis were measured on seven-point interval scales
  Correctly Classified: 100%
  Wilks’ Lambda = 0.313, p<0.001
  Canonical Correlation = 0.829

In the discriminant analysis, marketing performance perceptions were examined by using a composite measure of IJV marketing performance that included satisfaction with performance, strategic output performance and economic performance. In the discriminant analysis, the discriminant function was significant (Chi Square [composite measure of marketing performance] = 175.010, df = 7; p = 0.000). Table 1 gives the correlations between each discriminating variable and its respective discriminant function. For the composite measure that was used to assess IJV marketing performance the strongest predictors were production process innovation, product innovation, managerial systems innovation, marketing innovation, external learning and internally focused learning capability. Market-focused learning was deemed to have a non-significant effect on being able to discriminate between high and low IJV marketing performance.

To assess how effectively the derived discriminant functions were able to classify cases, a confusion matrix was generated and the jackknife (leave-one-out) method was applied for classification (Crask and Perreault, 1977). For a composite measure of IJV marketing performance, market focused learning capability, internally focused learning capability, external learning, product innovation, production process innovation, marketing innovation and managerial systems innovation, 100 percent of the grouped cases were correctly classified.

Largely, the results indicate that the marketing performance of Chinese joint ventures at an overall satisfaction level and at a strategic and economic level is influenced by production process innovation, product innovation, managerial systems innovation, marketing innovation, external learning and internally focused learning capability.
DISCUSSION

This study sought to examine the influence of market focused learning capability, internally focused learning capability, external learning, product innovation, production process innovation, marketing innovation and managerial systems innovation on IJV marketing performance in China. Although the innovation literature provides evidence to suggest that firms learn through markets, internal and external sources, these learning activities have received limited attention as organizational capabilities having the potential to contribute significantly to performance outcomes in international marketing. This study’s finding overcomes this void in the literature finding that organizational innovation enables IJVs to achieve enhanced performance. Furthermore, prior research has focused primarily on technological innovation paying limited attention to non-technological innovation. This study’s findings suggest that the broader innovative activities of products, production processes, marketing, and managerial systems innovation enable a firm to build an effective and differentiated customer value proposition enabling enhanced performance outcomes.

Internally focused learning capability and external learning were also able to significantly discriminate between high and low IJV marketing performance. This finding highlights the role of firm specific effects on a firm’s profitability and suggests the need to explore the internal factors driving a firm’s knowledge acquisition efforts through internal sources. Furthermore, it highlights the need to learn from both internal and external sources for enhanced performance.

Market focused learning capability was deemed as being unable to discriminate between high and low IJV marketing performance suggesting that perhaps all firms, both low and high performing firms, learnt from the market. The findings of this study, therefore, contribute to the debate on the role of the Resource Based View (RBV) in predicting an IJV’s overall performance. The study findings suggest that firms confronted with a turbulent environment learn primarily from internal research and development, staff and links with external organizations (Weerawardena et al., 2006). The IJVs in the sample appeared to share knowledge and integrate the new knowledge, driving innovative activities in their widest sense creating superior value for their customers and enhanced marketing performance.

The study findings contribute to the debate in the strategic management literature in two primary ways. First, the study introduces organizational learning into the innovation-based competitive strategy research as applied in international marketing identifying two of the three organizational learning capabilities as key antecedents of IJV marketing performance. Second, the study findings suggest that organizational innovation, with respect to product, production process, marketing, and managerial systems innovations have a significant impact on IJV marketing performance.

REFERENCES


Analyzing the Relationship between Advertising and Sales Promotion with Brand Equity

Abstract

In today’s competitive business environment, customers are considered to be the source of brand success. Customers have numerous choices to form among alternative products, and they apply a high level of effect in the market with regard to several aspects such as quality, product size, services, and price. Hence, it is very important for manufacturers to meet customers’ needs in order to stay competitive. Advertising and sales promotion are considered as the main tools of marketing communication which is influential in attracting the attention of the customer and building brand equity. Advertising and sales promotions are highly effective in affecting consumer purchase decisions of a particular brand. The main purpose of this paper is to analyze the link between advertising and sales promotion with brand equity. It reviews the past studies on the above mentioned variables and provides some clarification to the nature of relationship existing between them.

Keywords: Advertising, brand equity, sales promotion

Introduction

In increasingly competitive markets, companies recognize that they have to monitor, improve and strengthen their brands regularly in order to communicate consumer value for a long period of time (Yang, 2010). Nowadays, high equity brands play a vital role in the formation of marketing strategy, and are viewed as the main sources of differentiation that enhance firms’ competitiveness (Harun, Kassim, Igau, Tahajuddin, & Al-Swidi, 2010). In this concern, the need for strategic brand management is of significant importance (Keller, 2008). Consumers assess a brand according to their past experience with regard to its ability to meet and fulfil their needs and whether it delivers products and services beyond their expectations (Aaker, 1996; Siddiqi, 2011).

Certainly, brands that can effectively manage to position themselves successfully in consumers’ minds can enjoy multiple advantages. The most important advantage is the creation of brand equity. In particular, brand equity measures the ability of a brand to attract customers and maintain them profitably and expressively in financial terms (Haefner, Deli-Gray, & Rosenbloom, 2011). The increasing interests in branding nowadays while taking into consideration the high competition in markets, it has become very important to understand how brand equity can be established and enhanced. Previously, it was demonstrated that the
creation of brand equity is the responsibility of the whole firm (Aaker, 1991; Schreuer, 1998), and thus strategic brand management plays a vital role in the creation of brand equity (Keller, 2008).

Previous research demonstrated that advertising and sales promotions are two factors that influence the creation of brand equity (Yoo et al., 2000; Buil et al., 2011). However, despite the importance of these variables, the individual contributions of advertising and sales promotions to brand equity still unclear and some scholars suggested the need to additional explanation of the effect of these variables (Netemeyer et al., 2004; Chu and Keh, 2006). Hence, this paper aims to analyze the past literature on advertising and sales promotion and their relationships with brand equity. The outcomes of this paper will provide some guidelines and suggestion for future researchers as well as business practitioners. In the next sections, a discussion on these variables with brand equity is provided.

## Literature Review

### Brand Equity

Brand equity is one of the principal concepts in the field of brand management and it has obtained significant attention in previous researches with particular to different contexts (Boo, Busser, & Baloglu, 2009). Certainly, the basic foundation of brand equity is largely associated with the firm’s success, because when it is created, more profits and fewer expenses will be engendered (Myers, 2003; Keller, 2003). In the last few years, brand equity has gained large attention from several scholars demonstrating that it plays a vital strategic role in developing competitive advantage throughout strategic management of the brand (Moradi & Zarei, 2011).

A number of definitions were suggested to brand equity in the existing literature. Brand equity was initially defined by Farquhar (1989), as “the ‘added value’ with which a given brand endows a product” (p. 24). Brand equity was also defined as “the enhancement in the perceived utility and desirability a brand name confers on a product” (Lassar et al., 1995, p. 13). Brands that have high equity can establish their competitive advantage, charge a price premium on their products; and exploit customer demand (Bendixen, Bukasa, & Abratt, 2003).

Furthermore, Aaker (1991) stated that brand equity is a multidimensional construct which contains several dimensions namely brand association, brand awareness, brand loyalty, perceived quality and other proprietary assets. On the other hand, Keller (1993) viewed brand equity as a concept that includes brand image and brand association. Yoo, Donthu, and Lee (2000) revealed that brand equity can be establishing by reinforcing those dimensions. All of the said brand equity dimensions build up the credibility and value of brands and consequently encourage the customers to establish favourable attitude towards strong brands during the process of decision making. However, previous researches have used different set of dimensions for measuring this variable with particular to different contexts. The majority of these studied followed the pattern of Aaker (1991) to measure brand equity because they comprehensively measure this variable.

### Advertising

Advertising is one of the main marketing communication tools that affect consumer tastes and preferences and creates the differentiation of products (Shah & Akbar, 2008). Advertising refers to “any paid form of non-personal presentation and promotion of ideas,
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goods or services by an identified sponsor” (Kotler et al., 2005, p.761). Business practitioners as well as academics (Aaker 1991, Keller, 1993) verified that advertising has a considerable role in the formation of powerful brands. Ha (2011) suggested that advertising can strongly influence the development of brand awareness, and can affect consumer decisions during the purchase of products and services. Moreover, Kirmani (1990) supported this view that advertising has a strong effect on improving brand performance, at the same time it encourages practical experience of a particular brand, and plays a critical role in the creation of brand equity (Buil, de Chernatony & Martínez, 2011).

As mentioned by Hilman (2009), effective business plan demands firms to look for appropriate strategies that meet up the needs of customers. Advertising is one of the marketing communication strategies that can be used to inspire or persuade customers to purchase a certain product or service (Buil et al., 2011). Generally, the key function of advertising is to influence the behaviour of customers according to a particular offering (Aaker, 1991; Keller, 2003). Advertising messages are normally paid for communicating a brand by the firm and can visualized through various traditional media, such as mass media including outdoor advertising, direct mail, radio advertisements, or newspaper; and new media for example, blogs, text messages, and websites (Iranzadeh, Norouzi, & Heravi, 2012). Sedaghat, Sedaghat, and Moakher (2012) indicated several advertising media that can be used to communicate the brand, such as magazines, television (satellite, terrestrial, local, and national) cinema, journals, outdoor advertising (bus sides and posters), newspapers (free, local, trade, and national). On the other hand, Chattopadhyay, Dutta, and Sivani (2010), suggest several types of advertising, such as: television advertisement, event sponsorship, print advertisement, mobile phone advertisement, and internet advertisement.

Advertising and Brand Equity

Advertising has gained significant interest in latest years assuming it as a valuable strategy for firms seeking to gain competitive advantage and exploit their brand equity (Doraszelski & Markovich, 2007; Chattopadhyay et al., 2010; Gill et al., 2007). Tilley (1999) verified that advertising plays a critical role in creating a leadership brand. Moreover, a brand that spends more on advertising to communicate its messages for customers, can develop its image, increase customer trust, and obtain new ones to purchase its products; this is because customers usually trust the product quality of the well-known brands (Mitchell & Olson, 1981; Balaji, 2011).

Past research have examined the relationship between advertising and brand equity, and showed inconsistent findings. For instance, several studies revealed significant positive influence from advertising on brand equity (Sedaghat et al., 2012; Gill et al., 2007; Chen and Green, 2012; So and King, 2010; Chattopadhyay et al., 2010; Smith 2007; Sriram et al., 2007). However, other studies conducted by Buil et al. (2011) Huang and Sarigöllü, (2011); Chen and Green (2012) indicated that advertising spending has insignificant effect on brand equity. For instance, Gill et al. (2007) conducted a study to examine the influence of advertising on the formation of brand equity in context of Spain. This study has focused on various brands from three different product categories namely milk, olive oil, and toothpaste. Generally, the results revealed a significant positive influence of advertising on brand equity assets (brand awareness, perceived quality, and brand associations). The main limitation in this study lies in the small sample size which may not allow for analyzing differences between the selected product categories. Hence, it would be distrustful to generalize the findings to other contexts without additional investigation.
Likewise, Chen and Green (2012) examined the perceptions of age groups towards retailers’ marketing mix strategies and their effect on customer-based brand equity. This study indicated a negative and insignificant relationship between advertising and brand equity. The result is in line with that of Buil et al. (2011) who indicated that advertising spending had an insignificant effect on brand equity dimensions: perceived quality, brand association, and brand awareness.

Hence, this review reveals that advertising is a very important variable for enhancing brand equity. Companies with higher advertising are likely to have higher equity than those which pay less emphasis to this variable. In order to make advertising more effective, it is essential to ensure the creativity and originality of advertising campaigns and develop them in a manner that can attract customers and build their confidence toward the brand. This would enhance the image of the brand in long run and provides a basic for creating sustainable competitive advantage.

**Sales Promotion**

The importance of sales promotion in shaping brands has been documented in the literature. For instance, sales promotions influence the process of establishing strong brands and facilitate the creation competitive advantage; this is because sales promotions improve brand awareness for the whole product category and the promoted brands (Blattberg & Neslin, 1990). Though, in contemporary management practices, customers may think that firms develop promotional programmes in order to differentiate and modernise their brand image and enhance brand awareness (Palazón-Vidal & Delgado-Ballester, 2005).

According to past researches of Kwok and Uncles, (2005); Palazón-Vidal and Delgado-Ballester, (2005), sales promotions can be valuable for customers and positively influence their behavioural decisions, because they endow them with experiential benefits that may not be engendered in the product itself. In this way, sales promotions may possibly improve customers’ experiences such as fun, delight and distraction, and influence their attitude toward the brand (Palazón-Vidal & Delgado-Ballester). A part from sales promotion, product-gift fit also significantly affect consumers’ evaluation particularly for high equity brands (Montaner de Chernatony & Buil, 2011).

Sales promotion can differentiate a brand from its potential rivals and also it helps brand managers to communicate distinctive brand attributes, leading to improved brand equity (Mela, Gupta, & Jedidi, 1998; Chu & Keh, 2006). Sales promotions are well-known for their strong capability to attain business objectives and develop brand image or strengthen brand awareness (Chattopadhyay et al., 2010). They add stimulation and hence value to the brands (Aaker, 1991).

**Sales Promotion and Brand Equity**

Brand equity has been shown to be the central issue in research by which the focus has been cantered on the examination of its antecedents and consequences (Chattopadhyay et al., 2009). Earlier researches verified that the level of brand equity plays an important role in determining whether or not a brand is well focused on the offering sales promotions to influence consumer behaviour positively over competitive brands from the same product category (Raju et al., 1990). Sales promotions are expected to have the ability to create strong brand equity because they influence brand image and brand association which in turn play an key role in shaping brand equity (Keller 1998; Krishnan 1996).
In reviewing the past literature on sales promotions and brand equity, it can be noticed that most of the studies revealed insignificant relationship between sales promotions and brand equity (Gil et al., 2007; Chattopadhyay et al., 2010; Hosseini and Zareebaf, 2011; Buil et al., 2011). Moreover, Valette-Florence et al. (2011); Yoo et al. (2000) demonstrated that sales promotions have significant but negative effect on building brand equity. They added that sales promotions minimize brand equity even though they have a short-term benefit for potential consumer (Villarejo-Ramos et al., 2005. Hosseini and Zareebaf (2011) investigated the influence of sales promotions on brand equity in context of banking industry in Iran. This study found insignificant relationship between sales promotion and brand equity dimensions namely brand association, perceived quality, brand loyalty, brand awareness).

Similarly, Chattopadhyay et al., (2010) studied the effect of sales promotion for different media vehicles on building brand equity in context of Indian passenger car market. Generally, the results revealed that sales promotion has insignificant relationship with two dimensions of brand equity namely perceived quality and brand awareness. However, certain studies indicated that sales promotions have significant positive effects on brand equity (Sriram et al., 2007; So and King, 2010; Chen and Green, 2012). For example, So and King, (2010) conducted a study in Australia to examine the impact of sales promotions and advertising on brand equity, and their study results demonstrated that sales promotion has a significant positive effect on brand equity.

The above discussion on sales promotion and brand equity demonstrates that high emphasis on sales promotion negatively influence brand equity. The majority of previous studies support this argument by indicating that customers think of sales promotions as they usually provided by brands having low quality products, and the purpose is just to get out of that products. In particular, this paper suggests that in the future, other researches should be conducted to clearly establish the actual relationship between sales promotions and brand equity with regard to different cultures and country contexts.

**Conclusion and Future Research Directions**

In highly competitive global markets, it has become necessary for brands to sustain their positions and build up their competitive advantages through enhanced brand equity. In particular, creating brand equity has recently become a strategic initiative for firms, mainly because brand value is usually evaluated according to the positive image created in consumers’ mind and their repeat purchases. Two marketing communication tools include advertising and sales promotions have received significant attention over the last years as important elements in influencing brand equity. One of the main objectives of advertising and sales promotion is to improve the short-term sales of a product or service and influence consumer behaviour. However, Long-term effects are under an academic debate and diverse research shows conflicting results.

This paper has discussed past studies that examined the influence of advertising and sales promotions on building brand equity. In general, the majority of the scholars have declared that advertising has significant positive impact on brand equity development. The more advertising a brand spends, the higher brand equity will be. However, investments in this variable are not sufficient to influence the image of a brand. In this concern, firms should pay high attention to the design of creative advertising campaigns and ensuring their originality. Moreover, this paper concludes that a review of the past literature demonstrated that sales promotions are insignificant in developing brand equity. They have further stated that sales
promotion negatively affect brand equity, and customers usually think of sales promotions as an indicator of low quality products.

This paper opens an opportunity for some future research directions. For example, future studies can focus on examining the effect of advertising and sales promotions on brand equity with particular to different contexts and make a comparison between different product categories. In addition, the theme of this research can also be conducted by different research methods. A mixture of both quantitative and qualitative research methods can be used to depict a direct impact on the consumers purchasing behavior. Future research also can conduct a cross-case analysis whereby the implementation of advertising and sales promotion used can be compared between various companies in the same consumer market. Finally, this paper contributes to better understanding of the role of advertising and sales promotion in developing brand equity, and offers some insights into how business managers can manage the significance of these assets.

Reference

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Reshaping the Relationship of Strategic Factors Through Underpinning Theories

ABSTRACT

The purpose of this concept paper is to add to the body of knowledge by reshaping the relationship of strategic factors through the application of several underpinning theories. This study provides literature reviews regarding underlying theories namely dynamic capabilities, strategic implementation perspective and level of organizational strategy in context of this research. This paper reveals the relationship of competitive strategy, market orientation and innovation strategy that could be underpinned by dynamic capabilities, strategic implementation perspective and level of organizational strategy. This study seeks to provide rational consideration on the integration of above mentioned variables. As a significant contribution to the body of knowledge, this paper expanding the competitiveness theory and strategy theory development. Furthermore, this study provides several implications to the researchers and practitioners regarding the role of several underlying theories in reshaping organizations’ strategic direction.

Keywords: Dynamic Capabilities, Strategic Implementation Perspective, Levels of Strategies

INTRODUCTION

Today’s hoteliers face multiple challenges in their regular business operations. The dynamic competitive business environment, speedy technological development and frequent customer’s preference changes rewrote the rules of the game and pushed the hoteliers into very demanding situation. In response to these demands, hoteliers have to reshape their overall organizational strategy which could synchronize with the changing environment. Over the past decades, there has been a growing realization of the important contribution of competitive strategy (Parnell, 2011; Hilman, 2009; Allen and Helms, 2006), market orientation (Safarnia, Akbari & Abbasi, 2011; Kumar, Subramanian & Stradholm, 2011; Zhou, Brown & Dev, 2009) and innovation strategy (Tajeddi & Trueman, 2012; Gunday, Ulusoy, Kilic & Alpkan, 2011; Grawe, Chen & Daugherty, 2009) on organizational performance. Mutually researchers and practitioners agree that efficient and effective competitive strategy, market orientation and innovation strategy can lead to sustainable competitive advantage. However, very limited empirical evidence accessible relating to the association of these strategic factors. Therefore, this study will attempt to address this inadequacy and pursue to bridge the existing research gap.

PURPOSE OF STUDY
The purpose of this study is to discuss the rational consideration on integration of these strategic factors through theoretical background. The discussion on underpinning theories is very significant to strengthen the interrelationship among the variables in the study. First, this study will discuss about few underpinning theories that have some limitations to the scope and perspective of current study. Then, this study will discuss comprehensively about the underlying theories which are supporting the integration of competitive strategy (independent variable), market orientation and innovation strategy (mediators) on organizational performance (dependent variable). By doing so, the researchers are justifying and establishing the strong relationship of these strategic factors which could reshape organizations’ strategic direction.

LITERATURE REVIEW

Over the years, various theories were used in discussing the relationship of strategy, structure and performance. Among them are contingency theory, industrial organization theory (IO), transaction cost theory, agency theory, game theory, and resource based view (RBV) and dynamic capabilities (DC). First, this study will discuss about few most influential and cited theories and their limitations in the context of organizational adaptation and change from the perspective and scope of current research.

Contingency Theory and Limitations

The prior literatures examined the relationship between organization design and performance in the notion of contingency theory (Burns & Stalker, 1961; Lawrence & Lorsch, 1967). Contingency theory claims that the effectiveness of an organizational structure depends on the context of the environment. Briefly, it explains the relation between the internal organization with the external environment to achieve goodness of fit (Lawrence & Lorsch, 1967). This refers to the ability of managers to adequately interpret external conditions to implement the appropriate organizational design (Lewin & Volberda, 1999). Mitzberg (1979) stated contingency factors determine the designing of organizational structure. Thus, this highlights that environment functions as a direct source of variation in an organization. Therefore, contingency theory limited the organizational flexibility by reactivating adaptation capacity to handle the turbulent environment. Moreover, this theory neglects the ability of organizations to actively influence the environmental conditions in order to create flexible organizational design (May, 2011).

Industrial Organization Theory (IO) and Limitations

Strategy research has its roots in industrial organization (IO) theory. The IO theory proposes that firms gain competitive advantage through identifying external chances in new and existing markets then align the firm with these opportunities (Hilman, 2009; Porter, 1980, 1985). The IO theory explained that organizations should adapt to the industry structure in order to gain better performance (Parnell, 2006). Early strategy researchers noted the inability of the IO framework to explain large behaviours associated with performances that were not readily addressed in the IO framework (Hilman, 2009). The static framework within IO theory was questionable in context of rapid environmental change (Tidd, Bessant & Pavitt, 2005). Due to this shortcoming, scholars and researchers looked for better approach to sustain competitive advantage.
Resource Based View (RBV) and Limitations

Barney (1991) provided resource based view (RBV) approach to study the relationship of strategy, structure and performance. This RBV emphasised on valuable, rare, imitable and non-substitutable resources (VRIN) which led firms generate superior performance and competitive advantage (Ambrosini, Bowman & Collier, 2009; Barney, 1991). This approach emphasised on unique competencies and resources in strategy formulation instead of overall industry attributes (Parnell, 2011; Kim & Mahoney, 2005). In addition, RBV emphasised competitive advantage for firm level efficiency based on resources and capabilities against potential competitors (May, 2011; Barney, 1991).

Kraaijenbrink, Spender & Groen (2010) critiqued that RBV was insufficient to achieve competitive advantage due to several reasons namely, no managerial implication, implies infinite regress, too limited applicability and so on. Chan, Shaffer & Snape (2004) critiqued both theories contained an assumption of static stability. In short, RBV has limited value in explaining the occurrences and sources of sustainable competitive advantage particularly in rapid environmental change (Wu, 2009). To remain competitive in changing marketplaces organizations must continuously build new capabilities, therefore designed dynamic capabilities (DC).

Dynamic Capabilities (DC)

Current study utilises dynamic capabilities introduced by Teece, Pisano & Shuen (1997). Dynamic capabilities are an extension of RBV which explain how firms can grow their capabilities to adapt and capitalise in the fast changing business environment (Teece et al., 1997). According to Teece et al. (1997) dynamic is referred as capacity to renew competences to achieve consistency with the changing business environment. Meanwhile, capabilities are referred as the key role of strategic management for appropriate adaptation, integration and reconfiguration of internal or external organizational skills, resources and functional competencies to match the requirement against the changing environment (Teece et al., 1997). Essentially, Teece et al. (1997) mentioned that dynamic capability explains how the organization can leverage their strategies and change the valuable resources to enable them confront and overcome multiple challenges.

Many scholars have defined the concept of DC from various perspectives. For instance, Eisenhardt & Martin (2000) stated dynamic capability identified the process such as product development and strategic decision making within the firm by adjusting the resource configuration. Wang & Ahmed (2007) explained that dynamic capabilities were crucial organizational capabilities that helpful for long-term superior performance. Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece & Winter (2007) mentioned dynamic capability as the capacity of an organization to purposefully create, extend and modify the resource base. Moreover, Augier & Teece (2009) stated that dynamic capabilities referred to the non imitable capacity of business firm which possessed to shape, reshape, configure and reconfigure resources in order to respond towards changing technologies and market situation and avoid losses.

Ambrosini, Bowman & Collier (2009) stated that to understand the dynamic capabilities the organization should consider the managerial perceptions of the need for change towards the environment. Dynamic capabilities emphasised the transitory nature of both organizational resources and external influences (Parnell, 2011; Ambrosini et al., 2009). Arend & Bromiley (2009) stated that dynamic capability framework answered the essential question why some firms succeed in a dynamic competitive environment while rest fails.
According to Jin & Shi (2010), dynamic capabilities are mainly about the adaptation and linking of firms internal environment in response to the external environmental transformation. Crucially, dynamic capabilities have some insight from the behaviour theory, transaction cost theory, agency theory, incentives, property rights theory and evolutionary theory (Parnell, 2011; Augier & Teece, 2009). May (2011) pointed out dynamic capabilities included managerial decisions regarding resource allocation for capacity development and innovation activities.

Although DC and RBV are both sharing the same assumption (VRIN) and resources focused, but there were two main differences between these two theories (Ambrosini et al., 2009). First, RBV is static in nature while DC is addressing competitive advantage in rapidly changing environment and second, RBV focuses on the utility of organizations’ resource bundle while DC focusing on the best way to integrate, adapt and reconfigure the resources (Zaidi & Othman, 2011). DC focusing on resource and environmental aspect to create competitive advantage by integrating and renewing the resources. The organizations’ strategy and capability building alignment will create DC that are enabled to achieve better performance and sustaining the competitive advantage (Wang & Ahmed, 2007).

Briefly, dynamic capabilities provide valuable practices in the rapidly changing environment by identifying new opportunities and reconfiguring organizations’ internal operations process to gain sustainable competitive advantage. The researchers found that dynamic capabilities could underpin the interrelationship among the variables of this study. To put it differently, internal managerial strategic competencies and capabilities namely competitive strategy, market orientation and innovation strategy assist to gain optimal performance in a changing environment. By applying dynamic capabilities, this study attempts to align strategies and capabilities towards performance.

**Strategic Implementation Perspective**

The arguments on either organizational dimension (strategy formulation) affects competitive strategy (strategy implementation) or competitive strategy (strategy implementation) affects the organizational dimension (strategy formulation) still continues (Voola & O’Cass, 2010). Essentially, the literatures showed that many marketing scholars and researchers gave more importance and attention to the strategy formulation perspective rather than strategy implementation perspective (Noble & Mokwa, 1999). Hence, marketing scholars should give more importance to strategy implementation perspective (Voola & O’Cass, 2010).

Homburg, Krohmer & Workman (2004) stated that strategy formulation perspective as organizational dimensions; belief, behaviour, cultural and structure influence the strategy. Meanwhile, strategy implementation perspective is explained as strategy affecting the organizational dimensions towards performance (Homburg et al., 2004). In order to implement a particular strategy, the organization should develop and deploy the capabilities of organizational dimensions effectively (Voola & O’Cass, 2010). Homburg et al. (2004) stated market orientation as an intangible organizational variable in the context of strategy implementation perspective. Earlier, Chandler (1962) stated “structure follows strategy” which explains the link between strategy and organizational dimensions or structure. Crucially, more studies are needed on how the marketing and innovation activities is able to facilitate the implementation of business strategies (Parnell, 2011; Voola & O’Cass, 2010; Homburg et al., 2004; Frambach, Prabhu & Verhallen, 2003; Barney, 2001; Slater & Olsen, 2001).
This study adopts strategy implementation perspective which emphasises that strategy has a stronger effect on structure rather than structure influencing strategy (Homburg et al., 2004). In other word, this study will examine the effect of competitive strategy (strategy) market orientation and innovation strategy which are considered as organizational dimensions (structure) on performance.

**Levels of Organizational Strategy**

The strategic management literatures showed that organizational strategies were classified into three levels; corporate level strategies, business level strategies and functional level strategies. Corporate level strategies concern on selection of business by deciding the exact competition for the organization simultaneously developing and integrating all the portfolio of businesses. For instance, diversification strategy, acquisition, merger, joint venture, horizontal and vertical integration strategy (Nandakumar, Gobadian & Regan, 2011). Corporate level strategies enable organizations to identify the key goals and appropriate businesses that organizations should involve and assist to seek synergies by sharing and coordinating the resources and human capital effectively (Nandakumar et al., 2011). However, the researchers don't use corporate level strategy to conduct this study because this research mainly investigates the performances of hotel business operation.

Business level strategies concern about competitiveness of organization in current business environment within its industry (Parnell, 2011). These business level strategies determining competitive advantage for organizations by formulating and implementing vital strategies for competitive positioning and compete effectively than competitors. Many strategic researchers have given particular consideration for business level strategy due to its importance on performance (Nandakumar et al., 2011; Parnell, 2011). Hence, this study examines the business level strategy with Porter’s Pure Generic competitive strategies.

In order to obtain effective outcome from business level strategy, organizations should implement appropriate functional level strategies. Organizations should align their business level strategies with functional level strategies to achieve superior organizational performance (Slater & Olson, 2001). Nandakumar et al. (2011) stated that functional level strategies concern about improving the effectiveness of functional operations and added value to the organization (Analoui & Karami, 2003). For instance, marketing strategy, purchasing strategy, research and development strategy, financial strategy, human resources and so on. Functional level strategies will support the business level strategies by providing information about resources and capabilities to achieve efficiency, quality, innovation, customer responsiveness and distinctive competencies (Analoui & Karami, 2003). Hence, organizations should give importance for functional strategy because it assists in aligning overall organizational strategy to achieve greater performance. Therefore, this study will investigate market orientation and innovation strategy as functional level strategies.

**DISCUSSIONS OF STUDY**

As mentioned earlier, the aim of this study is to provide a comprehensive discussion on underpinning theories relating the strategic factors namely competitive strategy, market orientation and innovation strategy towards organizational performance. In order to shape the relationship among strategic factors, this study used dynamic capabilities, strategic implementation perspective and level of organizational strategy.
Hult & Ketchen (2000) identified market orientation and innovativeness as organizational capabilities. Meanwhile, Voola & O’Cass (2010) mentioned market orientation as valuable capability which facilitate the organizations to serve their target markets more efficiently. Maritan (2001) defined organizational capability as capacity to deploy its tangible or intangible assets to conduct a task in order to increase the performance. In line with this, Grawe et al. (2009) stated innovation as capability that determine the efficiency of the organization in the transformation process. By applying dynamic capabilities, this study attempts to align competitive strategy (strategies), market orientation and innovation strategy (capabilities) and performance.

This study uses market orientation of culturally based behavioural perspective as defined by Narver & Slater (1990). Innovation considered as a function of internal resources and the specific behaviour of firms (Ros & Sintes, 2009). Homburg et al. (2004) stated underlying belief, behaviours and cultural as organizational dimension or structure. From a strategic implementation perspective, this study aligning competitive strategy (strategy), market orientation and innovation (structure) towards performance. Both dynamic capabilities and strategy implementation perspective showing an inside-out approach which explains that internal organizational factors playing important role more than external factors in improving organizational performance.

Furthermore, the relationship between business strategies and market orientation is built on consideration of market orientation as a functional level strategy (Frambach et al., 2003). Furthermore, market orientation is also considered to be marketing’s contribution to business strategy (Hunt & Lambe, 2000). Meanwhile, innovation strategy (process and service innovation) is considered as a functional level strategy because it assists to add value to the offerings in two ways; lowering the operational cost and add new value by making differentiation (O’Sullivan & Dolley, 2009). From the level of organizational strategy, this study aligns the market orientation and innovation strategy as the functional level strategy with competitive strategy (business level strategy) and performance.

**IMPLICATIONS AND CONCLUSION**

The present study will contribute to competitiveness theory and strategy theory development by reshaping the relationship among strategic factors. Several key conclusions can be drawn from the present study. First, this study attempts to explain the relationship of strategy (competitive strategy), capabilities or resources (market orientation and innovation) on performance based on dynamic capabilities. Second, the current study provides insight on the role of organizational dimension or structure (market orientation and innovation) in the relationship of competitive strategy and performance from the strategic implementation perspective. Third, this study informs the role of functional level strategies (market orientation and innovation) in facilitating the business strategy (competitive strategy) and performance based on a hierarchy of organizational strategy.

For the practitioners, this study provides information to pursue right organizational strategy implementation by highlighting the links and alignment between strategic type, specific capabilities or resources or structure on performance. However, this study presents the implications based on the logical view of underlying theories, so the matter of this study required further investigation to empirically indicate the relationship among these strategic factors towards performance in order to achieve competitive advantage in a changing business environment.
RESHAPING THE RELATIONSHIP OF STRATEGIC FACTORS THROUGH UNDERPINNING THEORIES

REFERENCES


Abstract

This article presents critical review of past research on product diversification – performance relationship and suggests avenues for future research. Although several perspectives provide rationalization for pursuing product diversification strategy but empirical research on product diversification – performance relationship produced inconsistent findings until recently. In the same way, relative superiority of related diversification versus unrelated diversification also remains unsolved mystery. Researchers attempted to examine product diversification – performance relationship through diverse methodologies, contexts and variables. This improved the understanding of this phenomenon in various aspects but it also added to inconsistencies on the topic. Product diversification – performance relationship is inherently complex and must be studied with inclusion of moderating variables in it. Although, certain moderating variables have been used in past studies on this relationship, but a number of new perspectives could be explored through addition of other moderators. Future researchers intending to examine this relationship need to refine their methodologies and study it through new moderators and perspectives.

Keywords: strategy, product diversification, performance, moderating variables

Introduction

Product diversification is one of the crucial strategic decisions for any strategist (Marinelli, 2011). This decision holds great importance in any organization as product diversification strategy establishes scope of organization’s activities (Johnson, Scholes, & Whittington, 2008; Porter, 1991), represents its strategic flexibility (Abdullah, 2009), and might require major changes in organization structure for its implementation (Ansoff, 1957).

During 1960’s and 1970’s, many companies diversified to multibusiness organizations in western economies (David, 2011; Goold & Luchs, 1993) showing increased appreciation for diversification trends. Theoretical perspectives like transaction cost economics (Coase, 1937; Williamson, 1998), internal capital market efficiency (Berger & Ofek, 1995; Bhide, 1993), market power theory (Palepu, 1985; Palich, Cardinal, & Miller, 2000), resource based view (Teece, 1982; Wernerfelt, 1984) and agency theory (Amihud & Lev, 1981; Jensen, 1986) have provided rationalizations for high diversification of companies. However, many of those multibusiness companies restructured to single business firms in 1980’s (David, 2011; Goold & Luchs, 1993) indicating a reversal in the trend.
In the arena of research, scholars from multiple disciplines attempted to explore relationship between product diversification and performance. But the review of literature on the topic reveals that no consensus was reached among researchers on the true nature of this relationship (Benito-Osorio, Guerras-Martin, & Zuniga-Vicente, 2012; Marinelli, 2011). Many researchers concluded that product diversification led to improved performance and also, numerous studies revealed that product diversification produced negative effects (Park, 2010; Tan, 2007). In the same way, researchers made numbers of attempts in comparing related diversification strategy against unrelated diversification strategy on different performance indicators (Lahovnik, 2011). But, in the last four decades, this area has also remained a mystery (Abdullah, 2009; Lahovnik, 2011). Numerous studies concluded that related diversification strategy performed better as compared to unrelated diversification strategy (Park, 2010; Tan, 2007) and a number of researchers argued in favour of unrelated diversification strategy against related diversification strategy (Park, 2010; Yaghoubi, Abidin, & Yaeghoobi, 2011). In fact, these inconsistent and conflicting findings indicate ambiguity and complexity of product diversification – performance relationship.

The analysis of studies’ research methodologies on the topic reveals that past researchers have been examining product diversification – performance relationship through different analytical techniques, sample sizes and data sources (Benito-Osorio et al., 2012; Datta, Rajagopalan, & Rasheed, 1991). Although, factors such as use of different techniques for product diversification measurement (Klier, 2009; Pitts & Hopkins, 1982), reliance on different indicators of organizational performance (Datta et al., 1991; Dubofsky & Varadarajan, 1987), and contextual differences (Tan, 2007; Yaghoubi et al., 2011) enriched the literature on the topic, but at the same time it also increased complexity associated with it (Benito-Osorio et al., 2012; Palich et al., 2000).

Based on the apparent complexity of the relationship, certain scholars suggested placing additional variables in product diversification – performance framework (Daud, Salamudin, & Ahmad, 2009; Gary, 2005; Marinelli, 2011). So historically, other than using different methodologies for studying this relationship, researchers have been examining the antecedents and consequences of product diversification (Burgers, Padgett, Bourdeau, & Sun, 2009; Liu & Hsu, 2011) and building a better understanding of this relationship by adding certain moderators and mediators into the relationship. But until recently, there are evidences of inconsistent or conflicting results on the topic (Nippa, Pidun, & Rubner, 2011).

This article provides a summarization of researches conducted on product diversification – performance relationship and presents a critical analysis of research streams, findings, designs, inconsistencies and other efforts made by researchers to understand this relationship. It points towards importance of placing contingency variables or moderators in product diversification – performance relationship for the better understanding of the phenomenon. The article starts by providing a general comprehension of product diversification strategy and its types followed by theoretical perspectives on the strategy. Later on, it provides critical review of literature on product diversification – performance research. This is augmented by discussion of methodologies adopted by previous research and inconsistencies in research findings on the topic. Another section highlights importance and provides review of moderating variables used in this relationship by past studies. Lastly, the article presents conclusion and foresight for future researches.
Product Diversification Strategy - Definition and Types

Product diversification is a growth strategy whereby an organization makes departure from its current product lines and current market structure by entering into related or unrelated industries (Ansoff, 1957; Jones & Hill, 2010; Robbins, Coulter, & Langton, 2007). In related diversification strategy, organization’s new business activities are related with existing business activities (Harrison & John, 2010; Lahovnik, 2011) and its businesses share large commonality in terms of resource requirements and important value chain activities (Teece, 1982; Thompson, Peteraf, Gamble, & Strickland III, 2012). Companies like 3M, Honda, Cisco Systems and Samsung are considered as related diversifiers (Harrison & John, 2010; Jones & Hill, 2010). Recently, the entry of Tyson Foods into dog food business as well as Smuckers Company’s acquisition of P&G’s Folger’s coffee business provide other examples of this strategy (David, 2011).

Conversely, in unrelated diversification strategy (or conglomerate diversification) organization’s new businesses have limited or no relatedness with old businesses (Grant, Butler, Hung, & Orr, 2011; Thompson et al., 2012). Companies like Wesfarmers, Bidvest, ITC and General Electric represent examples of successful unrelated diversifiers (Kenny, 2012). IBM’s new water management business and recently, Dell’s manufacturing of smart phones are well known examples of conglomerate diversification (David, 2011).

Rationales for Product Diversification Strategy

Scholars established that at times, related and unrelated diversification strategies could be pursued with different logics and motives. For related diversification strategy, synergy creation is considered to be the main motive (David, 2011; Grant et al., 2011). In related businesses, synergy is created when the shared value produced by various businesses working collectively becomes more than the value those businesses would create independently (Gupta, Gollakota, & Srinivasan, 2007; Morden, 2007). Economies of scope are one of the important sources of gaining synergy benefits in these businesses (Martin & Eisenhardt, 2001; Yaghoubi et al., 2011). Economies of scope benefits are available in related diversifiers in the form of cost or differentiation advantages as related businesses can share their resources and capabilities across one another (Galván, Pindado, & De la Torre, 2007; Haberberg & Rieple, 2001; Hoskisson, Hitt, & Ireland, 2009; Nayyar, 1993).

On the other hand, scholars are of the view that the basic motives for pursuing conglomerate diversification are to enhance profitability and decrease overall company risk (Grant et al., 2011; Michel & Shaked, 1984). A conglomerate can create financial economies through efficient internal capital market (Hoskisson et al., 2009; Lim, Das, & Das, 2009) and lower its overall risk by utilizing its internal capital for cross subsidizing various businesses and through managing different businesses with varying risk profiles (Berger & Ofek, 1995; Galván et al., 2007). Business restructuring is another motive for unrelated diversification whereby an organization might acquire an undervalued business in entirely different industry and later on might sell it at higher price after turning it into profitable entity through using its financial expertise and efficient governance system (Bamford & West; 2010; Johnson, Whittington, & Scholes, 2011).

Other than these views, numerous perspectives present rationales and motives for product diversification – into related or unrelated areas – such as the transaction cost view (Liu & Hsu, 2011; Williamson, 1971) and internal capital market efficiency (Bhide, 1993; Lins & Servaes, 1999), the market power view (George, 2007; Martin & Eisenhardt, 2001), the resource based view (Teece, 1982; Wernerfelt, 1984), and the agency view (Aggarwal &
Samwick, 2003; Amihud & Lev, 1981). In order to build a better background for product diversification strategy, an explanation of each of these perspectives follows.

**Transaction Cost Economics and Internal Capital Market**

Perspectives on transaction cost economics (TCE) and internal capital market efficiency present strong rationales for product diversification strategy. While offering the basic concept of TCE, Coase (1937) argued that any organization would go on with diversification strategy to the limits where costs of doing extra transaction within the organization equalled to costs of performing same transaction in the external market or else they equalled to costs of doing same transaction in some other organization. TCE argues that in contrast to a focused firm, as diversified firm possesses its own internal capital market, therefore it could be more efficient and make better investment decisions (Berger & Ofek, 1995; Kuppuswamy & Villalonga, 2010; Lins & Servaes, 1999). Internal capital market provides opportunity to a diversified organization for successfully allocating different resources among various businesses (Datta et al., 1991; Galván et al., 2007; Teece, 1982). Multibusiness organizations also gain benefits by reducing variation in their yearly cash flow streams (Bhide, 1993; Teece, 1982) as well as by combining different businesses having different streams of earnings (Berger & Ofek, 1995).

However, benefits of internal capital market and TCE might be contingent upon degree and nature of product diversification strategy. For example, in conglomerates, knowledge sharing, implementation of internal control systems and attaining collaboration or team work between different businesses could be more difficult in comparison to related diversifiers and therefore in conglomerates, transaction costs and governance costs might be higher (Abdullah, 2009; Busija, O’Neill, & Zeithaml, 1997), thus diminishing the benefits of internal markets. Similarly, even in related businesses, too much diversification might increase its marginal costs, causing a curvilinear relationship between product diversification and performance and eroding all the benefits of internal capital market and TCE (Palich et al., 2000; Park, 2010).

TCE and benefits of internal capital market efficiency are also contingent upon institutional contexts and external environmental conditions (Claessens, Djankov, Fan, & Lang, 1998; Kuppuswamy & Villalonga, 2010). Naturally, organizations might prefer conducting business transactions through external markets if those markets perform well and offer lower transaction costs compared to internal capital markets (Nippa et al., 2011; Williamson, 1971). The presence of efficient product, capital and labour markets in well developed economies provides motives to organizations for conducting business transactions with external markets and therefore conglomerates may not be successful in those economies as their internal capital markets do not remain efficient (Mishra & Akbar, 2007; Nippa et al., 2011).

For instance, in the United States, product diversification strategy lost its fame in 1980’s and 1990’s due to growth of efficient external capital markets (Bhide, 1993). On the other hand, external markets are not properly developed in developing economies, and thus internal capital market proves rewarding in those economies (Fan, Huang, Oberholzer-Gee, Smith, & Zhao, 2008). In developing economies, therefore, related or unrelated diversification strategy might be beneficial and offer better outcomes (Claessens et al., 1998; Mishra & Akbar, 2007).

Similarly, external environmental conditions might impact benefits of product diversification strategy. Arguments concerning internal capital market and TCE obtained empirical support with reference to 2008-09 crises. For example, in their study of US firms, Kuppuswamy and
Villalonga (2010) concluded that value of unrelated (conglomerate) diversification increased during the period of 2008-09 crises because of the ‘smarter-money’ and ‘more-money’ effect associated with internal capital markets. In the same way, Elsas, Hackethal, and Holzhäuser (2010) studied diversification strategies of banks in nine different countries and provided support in favour of diversification strategy with reference to sub-prime crises started in 2007. However, certain scholars offered their reservations against TCE and internal capital market benefits by arguing that these benefits might not be available in certain diversified organizations because they might cross subsidize poorly performing businesses continuously, their reaction time to business needs could be slow and they might carry high overhead costs (Berger & Ofek, 1995; Bhide, 1993).

**Market Based View**

Market power benefits present another set of reasons to managers for implementing product diversification strategy. In contrast to focused firms, multibusiness organizations can benefit from their market power in several different ways (Benito-Osorio et al., 2012; Park, 2010). For instance, a diversified organization is in a better position to cross-subsidize a weak product with the help of surpluses gained through a successful product, thus resulting in a competitive advantage for subsidized product (Johnson et al., 2008; Lee, 2002; Palepu, 1985).

Similarly, a multibusiness organization can exercise ‘reciprocity’ which means developing reciprocal buying and selling arrangements with other firms who are at the same time, buyers as well as suppliers (George, 2007; Palich et al., 2000). To illustrate, an organization might make its suppliers to buy some products from another business it is going to purchase and in this way diversification will result into greater market power for the organization by resulting into multiple relationships with other organizations (suppliers or customers) (George, 2007; Goddard, McKillop, & Wilson, 2008).

Predatory pricing or price cutting is another tactic used by diversified organizations for gaining market power (Goddard et al., 2008; Klier, 2009). With the help of predatory pricing, a multibusiness organization can drive competitors out of the market and stop new competitors to enter into the market, providing itself a powerful strategic position and secure operating environment in various industries or environments (Palich et al., 2000; Saloner, 1985). Another benefit of market power usually available to multibusiness organizations is ‘mutual forbearance’, which implies that diversified organizations do not normally compete severely against one another if they are working together in variety of markets (Bernheim & Whinston, 1990; Martin & Eisenhardt, 2001).

Related diversifiers, in particular, enjoy market power advantages through vertical integration and multipoint competition (Hitt, Ireland, & Hoskisson, 2011). Backward integration allows a related diversifier to attain greater bargaining power over its suppliers whereas forward integration allows it to gain higher bargaining power over its distributors (David, 2011). Also, a related diversifier can put competitive pressures on its competitors in multipoint competition, by selling its products in a variety of product or market segments against those competitors (Johnson et al., 2008)

**Resource Based View (RBV)**

Resource based view (RBV) is the most frequently referenced perspective explaining rationales for product diversification strategy (Marinelli, 2011; Miller, 2006). RBV (Teece, 1982; Wernerfelt, 1984) holds that product diversification is driven by organization’s
strategic capability. Thus, an organization diversifies into related or unrelated industry segments if it contains surplus resources and capabilities that could be successfully employed in other industry segments (Barney, 1991; Matrin & Sayrak, 2003; Wernerfelt, 1984). Product diversification – either related or unrelated – becomes more appealing in those industry segments or markets where sales of surplus resources or assets in the external markets results into high transaction costs and therefore product diversification strategy turns out to be best method to exploit those resources internally (Goddard et al., 2008; Teece, 1982).

In any organization, surplus resources might be available in tangible or intangible form and could be utilized in various ways (Fatima, Rehman, & Ali, 2011; Gruber, Heinemann, Brettel, & Hungeling, 2010). Excess cash, for instance, can be used to decrease the prices, or to buy suppliers/distributors or competitors or a multibusiness organization can use its tangible resources like common overseas offices and distribution networks for various businesses in different markets (Johnson, Scholes, & Whittington, 2005; Tan, 2007). However, the type and extent of product diversification might depend upon nature of its surplus resources and competences, or their generalizability (Tallman & Li, 1996; Yaghoubi et al., 2011). If there exists larger generalizability of excess organization’s resources and competences, in that case the extent of product diversification will also be greater (Silverman, 1999; Teece, 1982).

Related diversification strategy is advisable in those conditions where organization possesses surplus resources which are capable of producing related outputs or its technological resource base allows production of related products and services (Silverman, 1999; Tallman & Li, 1996). Alternatively, organization prefers unrelated diversification strategy if those surplus resources and capabilities do not hold potential to create scope economies through related activities but they can be exploited within the organization for creating internal efficiencies among unrelated businesses (Ng, 2007; Tallman & Li, 1996). Barney (1991) added concept of sustained competitive advantage in traditional resource based view, according to which an organization becomes capable of attaining a sustainable competitive advantage if it possesses resources that are valuable, rare, robust and non-substitutable.

Agency View


Agency view is based on principal – agent conflicts (Jensen, 1986; Wu, 2012), where principal is one who delegates authority and the agent is someone whom the authority is delegated (Eisenhardt, 1989; Lupia, 2001). According to agency view, certain risk averse strategists do not take diversification decisions in the interest of their organizations, rather they take those decisions to lower unsystematic risk or danger of losing job or professional reputation (Amihud & Lev, 1981; Hitt et al., 2011; Lane, Cannella Jr., & Lubatkin, 1998). Moreover, strategists might be keen to go for related or unrelated diversification strategy as this decision might give them larger compensation, incentives, and control over resources and might also enable them smooth out organization’s income streams, thus lowering the likelihood of insolvency for their own personal benefits (Aggarwal & Samwick, 2003; Jensen, 1986).
Empirical Research on Product Diversification – Performance Relationship

Historically, product diversification – performance relationship has been a core area in strategic management, economics and finance and numerous researchers attempted to discover mystery behind this relationship (Benito-Osorio et al., 2012; Palich et al., 2000). But the relationship still remains a mystery (Benito-Osorio et al., 2012; Nippa et al., 2011). Conceivably, researchers’ attention into performance consequences of product diversification provoked during diversification trend, which started in 1960’s and demonstrated many organizations turning conglomerates (David, 2011; Goold & Luchs, 1993), mainly in the United States. Diversification trend sustained until 1970’s but multibusines organizations started to restructure by concentrating on lower degree of diversification in 1980’s (Goold & Luchs, 1993; Gupta et al., 2007).

Porter (1987), studied history of many multibusiness companies in U.S. and discovered that number of companies divested in the period of 1950-1986. Many poor performing multibusiness organizations were transformed into single businesses through leveraged buyouts (Bruche, 2000). The downfall of conglomerates during 1980’s lent support for the argument that product diversification was negatively related to company performance (Tan, 2007). However, Dundas and Richardson (1982) reported that some unrelatedly diversified businesses performed well during 1980’s and the failure of conglomerate diversification could be because of implementation issues.

Gottschalg and Meier (2005) also provided support for unrelated diversification by arguing that France’s Finalac and Australia’s Wesfarmers were among world’s successful conglomerates. Today, the presence of many winning conglomerates, for instance, Royal Philips, Hitachi and United Technologies Corporation (Harrison & John, 2010; Jones & Hill, 2010) doesn’t justify generalization of conglomerate discount on all such businesses.

Findings of Past Researches on Product Diversification – Performance Relationship

Empirical research has been following different streams for investigating product diversification – performance relationship. Certain studies either examined relationship between extent of product diversification and performance or compared focused firms against multibusines firms, while others compared related diversifiers against unrelated diversifiers. But it can be inferred through the review of literature on the topic that there exists no agreement on the nature of product – diversification performance relationship so far (Benito-Osorio et al., 2012; Marinelli, 2011; Palich et al., 2000; Santalo & Becerra, 2004). The following sections of the article present critical review of results of past researches on this relationship.

Product Diversification as Valuable or Non-valuable Strategy

A large stream of past research examined relationship between product diversification and performance (Benito-Osorio et al., 2012). In doing that, numerous researches provided evidences of product diversification as a valuable strategy (Elsas et al., 2010; Kuppuswamy & Villalonga, 2010; Miller, 2006; Mishra & Akbar, 2007; Singh, Mathur, Gleason, & Etebari, 2001). In the same way, number of studies reported that product diversification didn’t positively contribute to performance (Daud et al., 2009; Fukui & Ushijima, 2006; Hoechle et al., 2012; Klein & Saidenberg, 2010; Lins & Servaes, 2002). In each group of researches (the group of researches concluding that product diversification was valuable and the group of researches revealing that it was not valuable), the researches were different from one another in terms of techniques employed to measure product diversification, indicators used for performance, sample sizes, time periods and country contexts.
In those studies which concluded that product diversification was a useful strategy, researchers used a variety of techniques to measure type and extent of diversification such as the number of segments with reference to SIC codes (Kuppuswamy & Villalonga, 2010), entropy measure (Singh et al., 2001), and Rumelt’s product diversification categories (Pandya & Rao, 1998). In the same way, they relied on different indicators for company performance such as Tobin’s q (Miller, 2006), accounting indicators like Return on Equity & Return on Assets (Singh et al., 2001) and blend of market and accounting indicators such as AROE, AROA and AMKTRET (Pandya & Rao, 1998).

The analysis shows that the studies claiming product diversification as a valuable strategy were although heterogeneous in their sample sizes and time periods but they all lent support for a direct relationship between product diversification and performance indicating robustness in the findings. Theoretical perspectives on product diversification strategy discussed before such as TCE and internal capital market efficiency, market power view, and RBV lend considerable support for the positive impact of diversification strategy as also depicted by this group of studies.

On the other hand, in the group of researches inferring that product diversification was not a useful strategy, scholars utilized numerous techniques to measure product diversification, like the number of segments in NAICS (Hoechle et al., 2012), Herfindahl Index and Input/Output ratios for measuring relatedness (Fukui & Ushijima, 2006) and number of segments/businesses along with Herfindahl Index based on sales or assets (Berger & Ofek, 1995; Lang & Stulz, 1994). Also, those researchers employed different performance indicators in their investigations such as; excess value (Hoechle et al., 2012; Lins & Servaes, 2002), Tobin’s q (Lang & Stulz, 1994), and certain combinations of market and accounting based measures (Daud et al., 2009; Fukui & Ushijima, 2006).

Historically, study of Lang and Stulz (1994) that covered a time span of 1986-1991 as well as study by Berger and Ofek (1995) utilizing a large sample of 3659 firms reported negative relationship between product diversification and performance. Recently, Hoechle et al. (2012) conducted study on this topic using a sample of more than 4000 firms and involving long period from 1996 to 2005 and concluded that diversification results into discount on excess value. Hence, the heterogeneity in this group of researches also provides robustness of results for negative effects of product diversification strategy.

The Insignificant Relationship between Product Diversification Strategy and Performance

Interestingly, the review of past research in product diversification – performance relationship also reveals that certain studies reported absence of any significant relationship between product diversification and performance (Çolak, 2010; Marinelli, 2011; Montgomery, 1985). In a recent study, Marinelli (2011) concluded that relationship between product diversification and performance was not causal and it could be attributable to certain other factors. Findings of Marinelli (2011) are in line with Çolak (2010), Lloyd and Jahera Jr. (1994), and Chang and Thomas (1989). Historically, Montgomery (1985) also revealed that relationship between product diversification strategy and performance was not causal. According to Montgomery (1985), high degree of product diversification could not create higher profitability if controlled for industry profitability, industry concentration, and market share.
Curvilinear Relationship between Product Diversification Strategy and Performance
The review of literature on the topic also reveals that most of the researches on product diversification – performance relationship were based on the premises of linear relationship between the two variables (Park, 2010). In fact, in certain situations, product diversification could increase organization’s performance to a certain extent, but after that, too much diversification could result in inefficiencies making performance go down (Galván et al., 2007; Palich et al., 2000). Some past researches lent support for these arguments by suggesting curvilinear (inverted U shaped) relationship between product diversification and performance (Galván et al., 2007; Kahloul & Hallara, 2010; Liu & Hsu, 2011; Menz & Mattig, 2008).

Research by Palich et al. (2000) was a significant study in this regard as it synthesized results from last 30 years of research on this topic. It used meta-analytic data obtained from 55 previous researches on the topic and inferred that moderate degree of diversification caused higher performance than either broad or limited diversification, thus presenting support for the inverted U shaped model. However, according to Park (2010), curvilinear hypotheses suggested by Palich et al. (2000) is confusing as it mixes the two types of diversification strategy, while studying the affect of diversification on performance. He adds that curvilinear hypotheses for the relationship should be tested separately for related and unrelated diversification.

Related Diversification Strategy versus Unrelated Diversification Strategy
Another stream of research focused on evaluating superiority of related versus unrelated diversification strategy on different performance measures (Lahovnik, 2011; Palich et al., 2000). Much like product diversification – performance relationship puzzle, the mystery about relative superiority of related diversification and unrelated diversification strategy remains unsolved (Abdullah, 2009; Gary, 2005; Lahovnik, 2011). Rumelt, in 1974 pioneered the research on comparing related diversifiers against unrelated diversifiers and concluded that compared to unrelated diversifiers, related ones produced better performance.

Later on, the findings of his study were validated by Christensen and Montgomery (1981) and reconfirned by himself in 1982. But Michel and Shaked reported contradictory results in 1984 suggesting that on market measures of performance, unrelated diversifiers performed better compared to related diversifiers. Later on, in this stream of research, a number of efforts were made in comparing related diversification strategy against unrelated diversification strategy on various performance indicators (Park, 2010).

Studies Reporting Related Diversification Strategy Dominated Unrelated Diversification Strategy
Review of studies that compared related versus unrelated diversifiers reveals that those studies produced mixed results (Gary, 2005). Among them, numerous studies reported that related diversifiers performed better as compared to unrelated diversifiers (Galván et al., 2007; Markides & Williamson, 1996; Mishra & Akbar, 2007; Rumelt, 1974, 1982). Critical analysis of these researches, supporting superiority of related diversifiers, indicates that they were different from one another in terms of their contexts, methodologies, and other design issues.

For example, these studies relied on different performance indicators in which certain studies used accounting indicators (Markides & Williamson, 1996; Rumelt, 1982), others used market measures of performance (Galván et al., 2007; Mishra & Akbar, 2007) and still, other
studies employed a combination of the two (Berger & Ofek, 1995; Varadarajan & Ramanujam, 1987). Certain studies utilizing multiple indicators of performance produced mixed results (Christensen & Montgomery, 1981; Varadarajan & Ramanujam, 1987). To illustrate, study of Varadarajan and Ramanujam (1987) employed multiple performance indicators such as ROE, ROC, sales growth rate and EPS growth rate. It concluded that although overall, related diversifiers produced better results compared to unrelated diversifiers, but there was found to be high percentage of good performing conglomerates and a high percentage of poorly performing related diversifiers on ROC. Hence, findings like this ask for insertion of multiple performance indicators in future researches so that better understanding could be gained in this phenomenon.

Researches proving relative superiority of related diversifiers against unrelated ones were also different from one another in terms of time frame, sample sizes and contexts. For example, in terms of sample size, study by Berger and Ofek (1995) was a significant study because it took sample of 3659 different types of firms, while Palepu (1985) relied on a sample of 30 firms only. In their study, Varadarajan and Ramanujam (1987) drew sample from multiple sectors, while, Palepu (1985) took exclusive sample of food industry firms.

Studies supporting superiority of related diversifiers over unrelated ones were also heterogeneous in terms of how they measured product diversification. For instance, certain studies utilized simple categorical measures for product diversification (Berger & Ofek, 1995; Mishra & Akbar, 2007), others used entropy measure (Palepu, 1985), while certain other researches (Christensen and Montgomery, 1981; Rumelt, 1982) employed Rumelt’s (1974) categorical classifications for product diversification.

**Studies Concluding Unrelated Diversification Strategy Dominated Related Diversification Strategy**

While on the other hand, in the same line of research that compared related diversifiers against unrelated ones, there are considerable studies concluding that unrelated diversification produced better results compared to related diversification strategy (Dubofsky & Varadarajan, 1987; Lahovnik, 2011; Marinelli, 2011; Michel & Shaked, 1984).

It was discussed in the previous section that Michel and Shaked (1984) provided opposite results to Rumelt (1974, 1982) by saying that unrelated diversification provided better results compared to related diversification. Also, their results were confirmed by Dubofsky and Varadarajan (1987). Recent study by Lahovnik (2011) conducted in context of Slovenia employed multiple performance indicators and concluded that compared with related diversification, unrelated diversification strategy performed better on ROS. Study by Marinelli (2011) also produced results in favour of unrelated diversification strategy. The critical analysis of all studies supporting relative superiority of unrelated diversifiers against related ones reveals that these studies were also heterogeneous in terms of their research designs and measurement approaches, hence providing robustness of findings in this group.

**Inconsistencies in the Past Research Findings and the Design of Previous Studies**

Variety of research methodologies employed by past research along with inconsistencies in their results clearly indicates complexity associated with product diversification – performance relationship (Datta et al., 1991). A number of reasons could be responsible for this unsolved mystery behind the relationship. In the following portions of the article, a review of past studies’ designs is presented.
Diversification Measurement by Past Studies in Product Diversification – Performance Research

The measurement of product diversification has always been a critical issue in product diversification – performance relationship research. Also, there has been much discussion regarding the measurement and operationalization of product diversification (Markides & Williamson, 1994; Montgomery, 1982; Nayyar, 1992; Pehrsson, 2006). In past, techniques to measure product diversification have ranged from categorical to continuous measures or a combination of categorical and continuous measures (Klier, 2009). Thus, previous researches utilized diversity of techniques to measure product diversification.

Certain researchers have been measuring it using simple count of business segments (Çolak, 2010; George, 2007; Lang & Stulz, 1994; Schmid & Walter, 2008), while others utilized Rumelt’s categorical schemes for product diversification (Busija et al., 1997; Dubofsky & Varadarajan, 1987; Ibrahim & Kaka, 2007; Tan, Chang, & Lee, 2007) or Jacquemin and Berry’s (1979) Entropy measure (David, O’Brien, Yoshikawa, & Delios, 2010; Martínez-Campillo & Fernández-Gago, 2008; Ravichandran, Liu, Han, & Hasan, 2009; Santalo & Becerra, 2004) or Herfindahl Index (Çolak, 2010; Lang & Stulz, 1994; Schmid & Walter, 2008).

Scholars suggested that the selection of a particular product diversification measurement technique should be based on particular research questions (Pitts & Hopkins, 1982) as it could have significant implications for the findings in product diversification – performance research (Marinelli, 2011; Montgomery, 1982; Pitts & Hopkins, 1982). Montgomery (1982) lent support for SIC based measures by revealing high parallelism between continuous and categorical measures of product diversification. However she added that performance differences between unrelated portfolio firms and related linked firms in the work of Rumelt (1974) and Montgomery (1979) would not have been revealed by continuous diversification measures.

Hence, inconsistency in the results of previous studies on this topic could partly be attributed to variety of techniques employed by researchers in the past since every measurement technique of product diversification has its own attributes and so far there has been no best technique to gauge product diversification (Klier, 2009; Marinelli, 2011).

Performance Indicators employed by Past Studies in Product Diversification – Performance Research

In the same way, as discussed before, researchers relied on different types of performance indicators in product diversification – performance research. In fact, this could also lead to differing results on the topic (Capar, 2003). Majorly, the research on this topic made use of financial indicators of performance. Previous studies on this topic can be categorized into three categories with reference to their choice of performance indicators: (1) studies that utilized accounting indicators of performance (Delios & Beamish, 1999; Hill, Hitt, & Hoskisson, 1992; Marinelli, 2011; Martínez-Campillo & Fernández-Gago, 2008), (2) studies that employed market measures of performance (Campa & Kedia, 2002; Hoechle et al., 2012; Ishak & Napier, 2006; Schmid & Walter, 2008) and (3) studies that used a combination of accounting and market measures of performance (Daud et al., 2009; Doukas & Lang, 2003; Kahloul & Hallara, 2010; Pandya & Rao, 1998).

The analysis of performance indicators in research on product diversification – performance relationship reveals interesting results. On one side, there are contradictory results from
studies that used accounting measures of performance (Hsu & Liu, 2008; Singh et al., 2001) against those studies that relied on market measures of performance (Hoechle et al., 2012; Lins & Servaes, 2002). On the other side, reliance on similar measures like market measures of performance, for instance, also produced different results with certain studies saying diversification as non-useful strategy (Hoechle et al., 2012; Lins & Servaes, 2002) and other studies stating that no significant relationship exists between product diversification and performance (Çolak, 2010; Lloyd & Jahera Jr., 1994).

In the same way, analysis of performance indicators for studies that compared related diversifiers against unrelated diversifiers also produced mixed results. For instance, on one hand, certain studies that used accounting measures of performance favoured related diversification against unrelated diversification (Markides & Williamson, 1996; Palepu, 1985; Rumelt, 1982) and other studies that used market measures of performance favoured unrelated diversification against related diversification strategy (Dubofsky & Varadarajan, 1987; Michel & Shaked, 1984). On the other hand, reliance on similar measures like market measures of performance, for instance, also produced different results with certain studies favouring related diversifiers against unrelated diversifiers (Galván et al., 2007; Mishra & Akbar, 2007) and other studies favouring unrelated diversifiers against related ones (Dubofsky & Varadarajan, 1987; Michel & Shaked, 1984).

This review indicates that financial measures of performance were frequently utilized. But, usually financial performance measures have a considerable time lag (Chavan, 2009; Smandek, Barthel, Winkler, & Ulbig, 2010) and therefore sole reliance on those indicators could lead to incomplete analysis. In strategy research, limited studies used subjective assessment of organization performance (Nandakumar, Ghobadian, & O’Regan, 2010; Tan et al., 2007). A combination of financial performance indicators and subjective assessment of performance could provide a better picture of organizational performance (Jusoh & Parnell, 2008; Punniyamoorthy & Murali, 2008). Thus, in order to gain rich insight into product diversification – performance relationship, one must use variety of financial performance indicators as well as attempt to obtain subjective assessment of corporate performance.

**Contextual Differences among Past Studies on Product Diversification – Performance Research**

Studies in product diversification – performance relationship were conducted in different contexts and also produced different results (Benito-Osorio et al., 2012; George, 2007). Most of these studies were carried out in the context of United States and United Kingdom (Afza et al., 2008; Tan, 2007) as compared to Asian economies (Yaghoubi et al., 2011). The studies conducted in advanced economies produced contradictory results (Çolak, 2010; Hoechle et al., 2012; Kahloul & Hallara, 2010; Singh et al., 2001). In study of 1528 Compustat firms, Singh et al (2001) suggested that firms diversified in order to escape from low performance and income growth and to increase their asset utilization and debt capacity. They added that diversified firms outperformed focused firms at least on ROE.

Contrary to this, taking a large sample of 4250 Compustat firms, for the time period of 1996-2005, Hoechle et al. (2012) concluded that although with appropriate corporate governance, diversification discount fell and became close to zero but it still remained negatively significant. Kahloul and Hallara (2010) reported curvilinear relationship between product diversification and performance for 69 non-financial French firms. In the same way, studies examining related diversification against unrelated diversification strategy in advanced economies produced mixed results with certain studies favouring related diversification
(Galván et al., 2007; Markides & Williamson, 1996) and others favouring unrelated diversification (Dubofsky & Varadarajan, 1987; Marinelli, 2011).

Similarly in the Asian context, studies produced mixed results (Chakrabarti, Singh, & Mahmood, 2007; Daud et al., 2009; Ishak & Napier, 2006; Lins & Servaes, 2002). Chakrabarti et al. (2007) conducted their study on this topic for six East Asian countries and reported that product diversification had negative effect on performance in well developed institutional environments and it proved beneficial only in those environments which were not well developed. Internal capital market arguments and TCE provides support for their findings (Fan et al., 2008; Tan, 2007).

Conversely, in another research, Daud et al. (2009) used a sample of 70 Malaysian firms and revealed that overall single segment firms performed better in contrast to multibusiness firms. Their results were similar to study of Afza et al. (2008) conducted on the same topic for Pakistani organizations. Similarly, research involving largest Japanese manufacturers by Fukui and Ushijima (2006) and of various companies in seven Asian economies by Lins and Servaes (2002) reported negative effects of product diversification strategy. In a study of Taiwanese organizations, Liu and Hsu (2011) reported curvilinear association between product diversification and performance.

However, in another study of Indian firms, Mishra and Akbar (2007) provided results in favour of product diversification strategy but added that the benefits were largely applicable to related diversifiers only. Kuppuswamy and Villalonga (2010) tested product diversification with reference to internal capital market efficiency arguments in the context of 2008-09 financial crisis. Their study revealed that product diversification proved useful for diversified organizations during that time as during that crisis external capital markets turned more costly. So, diversified organizations’ access to their own capital markets proved valuable. Moreover, they added that product diversification strategy seemed useful because it offered co-insurance to multibusiness firms.

Given the perspectives on product diversification strategy, it can be initially argued that unlike advanced economies, in Asian countries where capital markets are usually not well established, the benefits of product diversification could be available to Asian companies or business groups. However, the analysis revealing mixed results in Asian context leads to the conclusion that it is hard to generalize any findings on product diversification – performance relationship on all diversified organizations in Asian countries.

The Importance and Use of Moderating Variables in Product Diversification – Performance Research

So far, the analysis indicates that the heterogeneity of research designs, variety of measurement techniques for different variables and contextual differences in product diversification – performance relationship produced mixed results and added to inconsistencies in the findings on the relationship. Additionally, this points to the complexity of this relationship.

As product diversification determines organization’s scope (Johnson et al., 2008; Porter, 1991) and its strategic flexibility (Abdullah, 2009), therefore product diversification decisions carry major implications for the organization (Ansoff, 1957). The success of this strategy might be dependent upon several other issues of strategic importance (Daud et al., 2009; Marinelli, 2011). For example, related or conglomerate diversification strategy might not
produce expected results because of implementation problems in any organization (Dundas & Richardson, 1982; Hill et al., 1992). Similarly, there could be other factors behind success and failure of diversification strategies (Gary, 2005).

For example, Samsung Corporation is successful with unrelated diversification due to its autonomous business model for various companies or divisions, whereas, Samsung Electronics (Korea) is successfully following related diversification strategy because of its R&D and low cost skills (Jones & Hill, 2010). Foster’s related constrained diversification failed due to implementation problems (Hitt et al., 2011). United Technologies Corporation (UTC) is a successful conglomerate because of its top managers’ possession of special skills to manage diverse businesses (Jones & Hill, 2010). Cisco Systems is successful in related diversification because its top managers are competent in planning to manage relatedness across businesses (Bamford & West; 2010). Moreover, Philip Morris’s acquisition of Miller Brewing was a success due to its ability to transfer its distinctive competences to Miller Brewing (Jones & Hill, 2010).

These examples indicate the role of contingency factors in product diversification – performance relationship and points towards inclusion of moderating variables in this relationship. In past research, several scholars acknowledged the contingency view of product diversification – performance relationship (Datta et al., 1991; Ravichandran et al., 2009) and supported inclusion of moderating variables in product diversification – performance relationship for getting better understanding of it (Marinelli, 2011; Martínez-Campillo & Fernández-Gago, 2008). A moderating variable can be considered as a variable that scientifically changes the form and/or power of relationship between an independent variable and a dependent variable (Sharma, Durand, & Gur-Arie, 1981).

Additionally, certain past researchers examined product diversification – performance relationship by placing certain moderating variables into it like ownership type (David et al., 2010), information technology spending (Ravichandran et al., 2009), CEO’s behavioural style (Martínez-Campillo & Fernández-Gago, 2008), relatedness between business units (Galván et al., 2007), number of specialist firms in the industry (Santalo & Becerra, 2004) organization structure (Markides & Williamson, 1996), organizational arrangements & control systems (Hill et al., 1992), and market structure (Christensen & Montgomery, 1981).

Inclusion of those moderators into product diversification – performance relationship enhanced our comprehension of the relationship in various perspectives. For instance, study by David et al. (2010) indicated that type of ownership was important moderating variable between product diversification and performance. Particularly, the study concluded that transactional ownership served as positive moderator between product diversification and profitability, whereas, relational ownership acted as positive moderator between product diversification and growth. Another research by Martínez-Campillo and Fernández-Gago (2008) revealed that CEO’s behavioural style moderated the relationship between product diversification and performance. Santalo and Becerra (2004) concluded that product diversification – performance relationship depended upon the number of specialist firms in the industry. They added that diversification produced better results where the number of specialist firms any industry was less than four.

In the same way, certain other researchers that tested relative superiority of related diversifiers against unrelated diversifiers, also placed moderators in their research frameworks to study the effect of related as well as unrelated diversification strategy on
To illustrate, Ravichandran et al. (2009) reported that Information Technology spending played a moderating role between related diversification strategy and performance. Similarly, Markides and Williamson (1996) concluded that a typical form of organizational structure moderated relationship between related diversification and performance. Historically, Hill et al. (1992) inferred that related diversification strategy could produce better results if organizational structure and control systems facilitated cooperation, and unrelated diversification strategy would produce better results if those organizational arrangements facilitated competition.

The inclusion of all these moderators in product diversification – performance research provided better understanding of different perspectives on the relationship but still some of the important moderators and research frameworks in this area remain to be tested. The inclusion of moderating variables such as strategy implementation issues, top management skills, organization culture and leadership in product diversification – performance frameworks could provide greater understanding of the phenomena (Gary, 2005; Goll & Sambharya, 1995; Hill et al., 1992; Marinelli, 2011). In the same way, other crucial factors such as knowledge sharing across divisions or various businesses of a corporation, extent of teamwork within an organization and technology management could be used as other moderators to unfold new perspectives in this relationship.

**Conclusion**

The product diversification – performance relationship has been popular area of investigation in many disciplines over the last four decades. However, the analysis of literature on the topic concludes that the findings of various researches in the area are inconsistent. Various researches in the area presented rationales and validity of their results but it is difficult to follow any one set of findings due to presence of contradictory results. As previously discussed, the discrepancy among the findings can partly be attributed to variety of research designs. For instance, home country environments and institutional contexts can play important role in diversification decisions and its success (Benito-Osorio et al., 2012; Kruehler, Pidun, & Rubner, 2012).

Although previous researches have been progressing on their designs and measurement methodologies but heterogeneity in the results on the topic call for further research on this topic. It can be said that product diversification – performance relationship is a complex phenomena and in order to comprehend it better, future researchers need to refine their methodologies and adopt new perspectives in their investigations. Studying the construct of product diversification is not less than looking at a large elephant from an angle. Any research inquiry on this relationship would be able to offer partial explanation on it from a specific perspective. Although previous studies enhanced our understanding of this topic through using multiple research designs, methodologies, contexts and by inclusion of different moderating variables in product diversification – performance relationship, but they all seemed to offer partial explanation of the topic given the size of product diversification – performance phenomenon.

There could be a number of issues on which this relationship can be revisited or new perspectives can be developed. Future researchers could use important strategic issues as
moderating variables in their product diversification – performance research such as strategy implementation, knowledge sharing, team work, leadership and organizational culture. Moreover, refined methodologies, better measurement techniques for product diversification, multiple performance measures and more complete models for product diversification – performance relationship will provide good insight into this mysterious relationship.

References


The remaining References cited in this paper have been omitted due to space considerations. Interested readers should contact the authors for a complete copy of the paper.
ABSTRACT

The environment today has become increasingly uncertain for the higher learning institutions, execution strategies successfully are very important for any organization in any sector. The success or failure of learning institutions is very much dependent on its ability to understand internal and external forces. This study was conducted in Palestine- Gaza strip, and specific group of respondents’ i.e. top management level of the higher educational institutions and the total respondents for this study was 255. The research instrument and data collection the questionnaire was chosen. Prior to the study, the instrument were pre-test for reliability of the 7-point Likert scale continuum, and use the partial least square-Structural equation model PLS-SEM to analyze the data. The Objectives of the study are to examine due to many growing challenges in the global service based education environment, the focus on the significance of the organizational culture and reward system in strategy execution activities and it should handle with them as a focal point in any organization to increase the organizational performance up through the successful of the execution of strategy.

Keywords: Strategy Execution, Organizational Culture, Reward System, Performance

INTRODUCTION

Universities are exceptional organizations in their structures and purposes and it would be a serious mistake to adopt uncritically planning activities that have been developed for industrial, productive or service organizations. In particular, universities are not unitary institutions. The collection of faculties and schools which have diverse tasks preparing students for admission in to exact professions, or inducting them into the intellectual backgrounds and methods of separate academic disciplines. Professions and disciplines have external reference groups and the fact of university life is that staff loyalty and identification can be more strongly devoted to a professional institution or to the interactional disciplinary network than to the apparently less relevant university that happens to employ them (Anderson, Johnson, & Milligan, 1999).

The environment today has become increasingly uncertain and unpredictable for public and private universities. Hence, the leaders of these institutions must learn, think, and act strategically (Bryson, 2004). In order to control and adapt to the environmental changes, clear approach with long-range planning techniques, should be used in the strategic management (Rahimnia, Polychronakis, & Sharp, 2009).

STATEMENT OF PROBLEM
Prior studies have addressed several aspects of strategy execution dimensions such as the organizational culture and reward system and organizational performance (Al-Gamdi, 1998; Al-mishari and Zairi, 1999; Alton and Ikavako, 2002; Okumas, 2001; Raps, 2004; Alashloo et.al, 2005; Hrebiniak, 2006; Delisi, 2006, Rahiminia, et.al, 2009; Cater and Pucko, 2010). Although previous studies contributed valuable information in the body of knowledge, however studies which integrate these two variables in one framework are still insufficient. Over the year, there is growing realisation of the significant contribution of strategy execution (Mieso, 2010; Malik, 2007; Delisi, 2006; Alashloo et.al, 2005; Johnson, 2002; Al-Gamdi, 1998). Organizational culture (Mieso, 2010; Pucko and Cater, 2010; Rahiminia, et.al, 2009; Li, et.al, 2008; Malik, 2007). and reward system (Hill, 2011; Baily, 2008; Neilson et al., 2008; Hrebiniak, 2008; Higgins, 2006; Okumas, 2003, 2001). On performance. So, in order to fill the research gap, this study will investigate the link of organizational culture, and reward system on performance of higher educational institutions in Palestine. The present study reinforces previous studies that has been done by several researchers (Wawaru, 2011; Cuter and Pucko, 2010; Rahimian, et.al, 2009; Kazmi, 2008; Sedlemayer, 2008; Thorpe and Morgan, 2007; Okumas, 2002; Bannen, 2002; Zaggota and Robinson, 2002)

PURPOSE OF STUDY

The purpose of this study is to investigate the context of research more holistically from strategic management outlook for the best decision making process to achieve superior performance and best results of strategy execution among higher learning institutions in Palestine. Therefore, the present study will investigate the use of organizational culture and reward system as independent variable on organizational performance as dependent variable. This study will identify the strategy execution type of universities, based on their use of dimensions of the strategy execution organizational level in pure form. Then, it will examine if specific organizational culture are associated with reward system and organizational performance. Finally, the rational for conducting this study is the necessity to investigate the interrelationship among these two variables because there were inconclusive findings indicated in prior findings.

THEORETICAL UNDERPINNINGS

Bertalanffy (1968) when he introduced the general system theory mention that each element in the system would be interrelated with each other, changing an element would cause other elements to change. In this case, the reward system has been studied by many researchers and its role accompanied with the organizational culture and organizational structure to get high level of organizational performance. So, the organizational culture and reward system will be embedded in the general system theory (Bertalanffy, 1968). The contingency theory also embeds both the organizational theory and reward system because it is studied in a turbulent environment such as in Palestine- Gaza (Lawarence and Lorch, 1967; Burrell, and Morgan, 1979).

LITERATURE REVIEW

Organizational Culture (OC)

In the context of group, culture has to do with people’s interaction, interaction among ideas, and behaviors. In particular Dobni (2003) defines culture as “the collective thoughts and actions of employees that manifest the strategic orientation of the firm. Culture drives strategy and it is an internal variable that firm can control”. Two important elements are emphasized within the definition: 1) the organization culture shows their strategic orientation and approach to the execution of strategy, and 2) culture is considered a variable which is
under the control of an organization and the organization can alter its present culture if it is not desirable (Baily, 2008).

Maas (2008) states that neither easy nor fast to change the culture of an organization. Moreover, it may represent an obstruction to effective execution. Also, the behavior and emotion of fear (culture of non-trust) which stems from it can be both important to the organizational culture as well as bring negative effect on execution performance. He further states that members of an organization fear in their practical and career life, i.e., losing a job, taking responsibility, etc. is “culture of fear”.

**Fear to offend others:** Fear to offend others is a significant concern being under focus. For example, Jaeger (1986) mentions that in an organization culture having high power distance accompanied by high uncertainty avoidance, the community tends to deal with interpersonal problems smoothly. Avoiding open conflict is compulsory for the members to carry on their interaction even though there is aggression within the organization and this will result in several consequences of reluctance to criticize (Henderson and Argyle, 1986, Maas, 2008):

a) It is possible that managers might have reluctance to address and modify unwanted behavior, according to the new strategy. Nevertheless, these adjustments need only be made when certain behavior does not meet the objectives of the executions.

b) In order not to cause any offence to others, indirect communication is usually used. It is understood to have a wall of friendless, which according to Marcha and Verweel (2000) refers to the phenomenon that ‘some communities tend to say what the listener wants to hear’. ‘They rather say ‘yes’ or nothing instead of saying ‘no’.’

c) Employees do not have the courage to raise their opinions particularly when such opinions are different from their manager’s. They do not want to stand up against their organizational members particularly the higher hierarchy. This could influence the level of participation negatively and might even destroy it (Maas, 2008).

**Fear of job security:** Zhu, (2010) claimed that the systematic research about organization behavior with regard to the uncertainty among organizational members regarding their job security on the occurrence of any major organizational change is little. Borg and Dov, (1992) indicate that job insecurity is influenced by several factors which are related to the low level of job satisfaction, organizational commitment, motivation, job involvement, trust in management accompanied by the increase in psychological withdrawal, resistance to change, and propensity to leave the organization (Zhu, 2010). Moreover, withdrawal cognitions and behaviors such as reduced work effort, increased absenteeism, and theft will occur more often (Davy, Kinicki, and Scheck, 1997). Job insecurity and execution performance are negatively related. The idea of losing one’s job affects strategy implementation in several ways. For instance, members of an organization would be scared to take initiatives or to make mistakes, especially when the layoffs strategy is executed in the organization, what could cause resistance to the execution effort (Maas, 2008).

**Fear of making mistakes and taking initiatives:**
Edmondson (2001) stated that the psychological safety influence the level of risk taking within an organization positively. When the members of an organization do not fear the material or reputational harm, they would be encouraged to initiate and hence to make some mistakes. When the members of such organization have the belief that a member with a good intention will not be punished when he makes mistakes, this will encourage their learning behavior in work teams. On the other hand, when the only response of superiors is punishment of such initiatives, this will surely result in the subordinates’ reluctance to
involves in learning behaviors, which eventually mean not making mistakes and taking risks. Yet another result, when the management’s response to such situation is punishment or losing the employee’s face, is a negative effect on the employee’s execution performance. A different study conducted by (Martinko and Gardner, 1982), shows that certain properties may cause passive and maladaptive behavior among it’s’ members. For example, organizations with inflexible rules, formalization and centralization may make the employees to be passive and uncreative, with the unwillingness to take initiatives unless it is rewarded or encouraged (Maas, 2008).

**Fear of Responsibility**

Several reasons could cause the organizational members to fear responsibility. These were mentioned in (Cater, Pucko, 2010; Maas, 2008). a) If something went wrong under a person’s responsibility or mistake has been done, then the punishment for this person will be imposed for this person. b) When the employees do not have the experience to deal with responsibilities, due to the hierarchical management style followed by this organization, which would result in making staff languid and thus have neither the willingness nor the ability to take responsibility. These members tend to think in a hierarchical manner that is; decision making is the responsibility of the management. Fear of carrying responsibility affects strategy execution (Cater, Pucko, 2010; Pucko, 2006; Kaplan, Norton, 2005): a) The organizational members shifting responsibility to other members of the same organization and thus shifting accountability to them in case something goes wrong. These shifts will especially be made to management, instead of organizational members. When the organizational members fear to carry responsibility, and shift their responsibilities to others, this might result in not executing certain tasks particularly if this task is related to strategy execution context, simply because no one feels that such responsibility is directly related to him. b) The employees’ reluctance to perform their tasks is due to their fear of making mistakes. c) finally, they wouldn’t like to make decisions during strategy formulation and execution.

**Fear of Participating**

Vroom (1960) suggests that positive influence could result from participation only with organizational members who have low needs for authoritarianism accompanied by their independence which influence their execution performance positively (Maas, 2008). Hofstede and Hofstede (2005) also suggest that members of less education and lower status tend to be more authoritative than the higher status colleagues.

Labianca, Gray, and Brass (2000) argue inviting employee to participate in organizational activities, they might need to transform all their values regarding their views towards power and the power in the organization. Henderson and Argyle (1986) describe the relationship between higher administration i.e. supervisors and lowers staff i.e. employees as task oriented, formal, unequal and hostile. Members of organizations should form the understanding that decision making influence should be shared among the unequal hierarchical system (Labianca et al., 2000). Organizational members can have a natural fear to participate, when they are given the chance to participate many will not take the opportunity. They often suggest that they don’t have the opportunity, but when it comes down to them they don’t take part.

**Fear of Change:** Swanson and Power, (2001) suggest that the change process itself might create tensions, insecurities among organizational members, which would occasionally lead to distress. (Hussy, 1999, 2002) also advocates that major organizational change, which is
usually accompanied by uncertainty, engenders intense emotions such as fear and stress. This could even go beyond feelings to negatively influence the physical and mental health (Swanson and Power, 2001), which change may lead to the organization paralysis. This also could on the other hand create a readiness for action (Hussy, 2002). Furthermore research results suggest that negative attitudes spread faster within a group compared to positive ones (Hussy, 1999).

Many researchers focused on the phenomenon of resistance to change which is defined as any conduct that serves to maintain the status quo in the face of pressure to alter the status quo. Reid (1989) claims that organizational members with no exception of managers and high rank employees often feel distressed by change and would often resist it. Kotter and Schlesinger (1979) argue that the disturbance which accompanies organizational change usually shakes the company’s stable interests and upsets the established routine (Noble, 1999).

**Reward System (RS)**

In the field of strategy execution, many scholars associate reward systems as an important factor in strategy execution (Bhatti, 2011; Higgins, 2006; Okumas, 2003, 2001). Organizations used reward system as one of the tools to monitor progress of strategy execution (Hrebiniak, 2005). Reward or incentive systems are essential to motivate staff (Hrebiniak and Joyce, 1984). Commitment to a strategy can be enhanced by realigning rewards so that they represent the intended strategy (Li, Guohui, & Eppler, 2008). The importance of an empowering people has been acknowledged as a mean of achieving success in strategy execution (Stonich, 1981). Performance based reward will make people know what is important, valued and recognized in an organization, and this will serve as motivation for people to engage in the process (Bossidy and Charan, 2002).

**The relationship between organizational culture and organizational performance:**

The strategy execution literature till now studies the organizational culture and its effect on performance. Many studies investigate the role of organizational culture in the organization; and most of these studies indicate that there is a significant role in the organization. These studies recommended more studies be done on strategy execution and culture in many sectors especially on education sector (Hill, 2011; Cater & Pucko, 2010; Rahimnia, et.al, 2009; Tolleson, 2009; Hrebiniak & Macallaster, 2004).

Maas (2008) in his study found different dimensions for the organizational culture or in other word talk widely about the culture of fear and how it affects the performance in the organizations. Delisi (2006) points out that the organizational culture as one of the reinforcees that can sabotage the strategy execution process and affect the performance if it is not considered.

**The relationship between the reward system and organizational performance**

Delisi (2006) states that the most difficult thing in organization is when the management neglect to reward people or measure them when management asks for executing the plan. It is rare to find a study discussing a success in strategy execution when doesn’t mention or consider reward system (Hill, 2011; Waweru, 2011; Schaap, Stedham, & Yamamura, 2008; Sedlemayer, 2008). Rahiminia et.al, (2009) mentions that if the reward system not considered during the execution of the plan, it will be an impediment and hinder the development in the organization especially in the universities. Hrebiniak (2006) mentioned in his study that there
will be no success if the staff are not rewarded during executing the strategy and this will impact the organizational performance.

**Figure 1: Linkage of Organizational culture, Reward system, on Organizational Performance**

### Proposed Hypotheses

The primary research question of this study is to determine the extent to which organizational culture and reward system in its relationship with organizational performance. Given the gap in the literature on this perspective, this study intends to address the proposed hypotheses.

H1) There is a relationship between organizational culture and the organizational performance.

H2) There is a relationship between reward system and the organizational performance.

### METHODOLOGY AND RESEARCH DESIGN

This study chooses a quantitative cross-sectional survey method. This study is aimed to investigate the influence of organizational culture and reward system and performance relationship.

**The Sample**

The unit of analysis of this study is organization (universities). This study will examine the higher learning institutions which registered under Ministry of Higher education- Palestine. The directory of Ministry of Higher education- Palestine 2012 indicated that currently there are 13 higher learning institute in Gaza. The sample size derived from Krejcie and Morgan (1970) table which will be 13 universities. The simple random sampling technique will be used to select the samples. The potential respondents are from universities top, middle, and low managers, who are actively involved in the strategy execution process and possess adequate knowledge to answer the questionnaire.

**Research Instrumentation and Measurement**

This study adapted instrument which have been previously tested and validated. Organizational culture measures consist of twenty-five items for the dimensions of fear and seven items for reward system adapted and adopted from Maas (2008) study.
All the items will be measured through seven-point likert scale (1= strongly disagree to 7= strongly agree). Organizational performance will be measured through balance scorecard four perspectives (Kaplan & Norton, 2006) all the items of organizational performances measured by 22 items. Seven-point likert scale will be used to measure the performance (1= extremely disagree to 7= extremely agree.

**Data Analysis Procedures**

This study will use PLS version 2.00 to analyse the data. First, the data will be screened and cleaned though an assessment of missing values, outliers (Mahalanobis distance test) and normality (Kolmogorov-Smirnov and Shapiro-Wilk). Cronbach Alpha will be used to determine the reliability of the instrumentation. The validity of the instrumentation will be measured through face validity, content validity and construct validity (factor analysis). The direct relationship of organizational culture, reward system, on organizational performance will be measured through PLS-SEM.

**CONCLUSION AND IMPLICATIONS**

**The findings of the study**

The study aimed to analyze the effect of strategy execution organization level dimensions (Organizational Culture, and Reward System) on organizational performance of service – based higher education. The framework explored the dimensions of each construct and their effect on organizational performance. The proposed constructs were strategy execution level factors (organizational culture, and reward system).

**H1:** Measuring the degree of influence of the Organizational Culture on the Organizational Performance

The findings reject the hypothesis 1. One unanticipated finding was that the organizational culture has negative influence on the organizational performance. This findings of the current study is in variance with (Rahimnia, Polychronakis, & Sharp, 2009; Maas, 2008; Balzarov, Balzrova, Bamber, McCambridge, & Sharp, 2004; Swanson and Power, 2001) that showed organizational culture- culture of fear or (Culture of non- trust) is a critical factor to get the organizations success or failure and even rise up the level of performance. However, this result has not previously been described. The researcher is attribute that first reason is the majority of the respondents are from the high level of management and most of them are well-educated, even they are working in the universities and now the demand and supply of the employments in the universities little bit high than before ten years and now around 15 higher learning institutions serve around less than one million of Palestinians in Gaza strip- Palestine and this figure is candidate to increase next two years. The other reason is 120 respondents, equal to (47.1%) of the respondents are in the age between 30-40 years, mean that still young, active, but some time do not like to be responsible. For these reasons, the respondent do not concern about losing their job, or try to have more responsibilities, or engage himself in some work not related to his position, and less participating. Ultimately the culture of fear in this level is not scaring the employees working in higher education organizations in Palestine for the reasons mentioned above in this study. However, the culture of fear (culture of non-trust) could be found in other institutions or other sectors in Palestine or other places out of Palestine, and should focus in this point and give opportunities to study this culture of fear in other sector in Palestine such as the industrial or service sectors.
Hypothesis 2 is also rejected. The results indicate that the reward system is negatively influence the organizational performance. These findings of the current study are inconsistent with those of (Slater, Olson, & Hult, 2010; Neilson, Martin, & Powers, 2008; Schaap, Stedham, & Yamamura, 2008; Higgins, 2006) who found that reward system is critical factor for the effective strategy execution, and the organizations do need a system of rewards such as (incentive or motivations, monetary or non-monetary, for the members who do well-performed or poorly-performed) to get best results of rising up the organizational performance and the organizations get success.

Most of studies mentioned that the reward system is very important to get the strategy execution success. However, Delisi (2006) states that the most difficult thing in organization when the management neglect to reward people or measure them when management asks for executing the plan. It is rare to find a study discussing a success in strategy execution when doesn’t mention or consider reward system. Rahimnian et.al, (2009) mentions that if the reward system not considered during the execution of the plan, it will be an impediment and hinder the development in the organization especially in the higher learning institutions. Hrebiniak (2006) mentioned in his study that there will be no success if the staff is not rewarded during executing the strategy and this will impact the organizational performance. The attribution or justification for that the political obstacles which drive to insufficiency and lack of financial resources and incontinuously fund for the higher learning institutions especially in Gaza strip- Palestine. And the universities there were giving salaries more than other sectors.

References

ABSTRACT

The purpose of this paper is to explore the differences among firms at the different stage of internationalization from the perspective of branding strategy. The assumption is that firms that are exporting their own brand are the higher stage of internationalization that those firms that are exporting a mixture of own and buyers’ brand as well as those exporters solely buyers’ brand or no brand at all. The analysis is directing at determining the differences in organizational resources. This study identified the sources of competitive advantage they is organizational resources. The analysis is based on the classifications of exporting firms branding strategy of Thai agro-based exporting firms. The four types of branding strategy consists of own brand, dual brand (own brand plus buyers’ brand), buyer brand, and no brand. The results of this study found that two groups of exporters are relatively poor in resources related to the human capital, and also with respect to R & D and technological resources. They exhibit commendable resources in manufacturing and financial aspects. The results show that exporters of dual brand possess superior resources in human capital. While exporters own brand tend to be modest in their assessment of the internal resources. Overall groups of exporters possess reputation resources.

Keywords: Branding Strategy, Organizational Resources, Thai’s Exporters, Thailand

INTRODUCTION

The agro-based sector has made an important contribution the Thai economy in terms of employment and export earnings. The competition in international market has forced the sector to upgrade itself in order to remain competitive. Since 1999, the Department of Export Promotion, Ministry of commerce (DEP) Thailand encouraged both manufacturers and exporters to use the individual brand in conjunction with the “Thailand brand” which signified diversities of quality product and services from Thailand for exporting other countries. Thai product has not only been able to win recognition in the global market but products under the “Thailand Brand” have also won satisfaction and trust among worldwide customers. At that time, as many as more 1,786 Thai manufactures and exporters have been granted permission to use the “Thailand Brand” logo. About 912 Thailand manufacturers and Thailand exporters and 874 were Thai restaurant entrepreneurs overseas.

During 2004, The DEP had project that develop and promote Thai exports. The DEP various exported promotion activities included international and domestic trade fairs, the creation of the “Thailand Brand” awareness, building a strong distribution network, developing an efficient information system to promote Thai export product. These activities has been conducted on an ongoing basis and therefore have contributed significantly to form a solid
and stable foundation for Thai export volume to grow aggressively in the year and beyond. This paper wills highlights agro-based firm’s specific advantage in domestic market is to explore the differences among firms at the different stage of internationalization from the perspective of branding strategy.

LITERATURE REVIEW

Branding Strategy
Brand and brand name are simply colloquialism for trademark. International branding is relatively more complex than domestic branding because at least four levels of branding must be considered. These decision levels are: brand vs. no brand, manufacturing brand vs. private brand, one brand vs. multiple brands, and worldwide brand vs. local brand. Branding can be a viable solution to the problem of cut-throat competition since brand names can enhance the consumer’s perception of the value of the product. Brand name counter attacks include increased quality, innovations, price reduction, and advertising (Lightman, 1981). The branding for decision making shows a simplified branding model. It covers all four branding levels. It may not be wise to brand a commodity. But if a product can be meaningfully differentiated, it should be branded. A manufacturer should refuse private branding if it has market power. This strategy allows it to maintain customer loyalty as well as distributor royalty. Market heterogeneity across countries may make global branding ineffective, necessitating the utilization of local brands. Furthermore, market heterogeneity within a specific country may require further segmentation and multiple brands maybe both necessary and desirable (Onkvisit and Shaw, 1988). The analysis of this study is based on the classifications of four types of branding strategy consists of own brand, dual brand (own brand plus buyers’ brand), buyer brand, and no brand.

Firms’ Competitiveness and Performance
There are two related types of resources that are necessary for creating competitive advantage, namely assets and capabilities (Day, 1994). Assets are resource endowments which a firm has accumulated while capabilities are a firm’s complex bundle of skills and accumulated knowledge. The Resource-Based View (RBV) asserts that firms sustain competitive advantages by deploying valuable resources that are superior, scarce, and inimitable (Barney, 1991; Wernerfelt, 1984). The resource-based view has been extended to explain the variations in export venture performance. Many previous studies indicated that there are positive relationships between organizational resources include reputation resources, financial resources, manufacturing resources, and human resources which form the bases of firm’s competitive advantage and export performance (Ling-yee and Ogunmokun, 2001; Kaleka, 2002; Carmeli and Tishler, 2004; Morgan, Vorhies and Schlegelmilch, 2006; Wilkinson & Brouthers, 2006). Previous studies found that the reputation resources have a positively correlated with export performance (Morgan, Vorhies and Schlegelmilch, 2006). In addition, financial resources are the key predictors for export venture performance (Ling-yee and Ogunmokun, 2001; Kaleka, 2002). The studies found that there are a linking among management of human resources and competitive advantage on firm performance (Daily, Certo and Dalton, 2000). Besides, Production issues (e.g. technology design, Q.C.) in manufacturing firms should be taken in competitiveness and firm’s growth, (Wilkinson and Brouthers, 2006). R&D is an important factor which has a positive influence on export performance (Lefebvre, Lefebvre and Bourgault, 1998). As well, internet technology has a positive impact on export performance (Prasad, Ramamurthy and Naidu, 2001).
METHODOLOGY

This is a cross-sectional study using mail survey. The highly structured survey instruments were mailed to managers in agro-based exporting forms listed of Exporter Directory of Department of Export Promotion (DEP) Thai 2007. A total of 113 usable returns were received giving a response is 15.26%. A total of 22 items are used to measure the organizational resources. They were adopted from previous research (Carmeli & Tishler, 2004; Morgan, Vohrhes and Schlegelmilch, 2006; Kaleka, 2002; Ling-yee & Ogunmokun, 2001). The respondents were requested to rate the level sources of competitive advantage stress in the domestic market on a 5-point Likert scale ranging from 1 = strongly disagree, to 5 = strongly agree.

The Findings

The classification of respondents based on branding strategy shows that 38 firms are exporting using their own brand; 45 firms are exporting using buyers’ brand; 19 firms are exporting a mixture own and buyers’ brand; and the remaining 11 firms do not use any brand. As shown in Table 1, with exception of own brand exporters, the export intensity of the remaining three group of exporters are significantly high. Although the same pattern is observed in terms of export experience, the difference is rather marginal. In terms of market, exporters of own brand and buyer brand appears to practice market concentration, exporting to not more than five markets. While own brand exporters are focusing on ASEAN market, the exporters using buyers’ brand are not only targeting ASEAN but also more developed nations such as Europe and USA.

Table 1 Background information of respondents

<table>
<thead>
<tr>
<th>Brand</th>
<th>Own Brand (n = 38)</th>
<th>Dual Brand (n = 19)</th>
<th>Buyer Brand (n = 45)</th>
<th>No Brand (n = 11)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Intensity (%)</td>
<td>41.89</td>
<td>71.74</td>
<td>73.60</td>
<td>80.82</td>
</tr>
<tr>
<td>Export Experience (%)</td>
<td>9.84</td>
<td>10.00</td>
<td>11.00</td>
<td>11.42</td>
</tr>
<tr>
<td>Number of Export Countries:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leas than 5 countries</td>
<td>24</td>
<td>9</td>
<td>27</td>
<td>9</td>
</tr>
<tr>
<td>Between 6-10 countries</td>
<td>9</td>
<td>7</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>Between 11-15 countries</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>More than 16 countries</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Export Regions:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ASEAN countries</td>
<td>21</td>
<td>6</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td>Developed Nations countries</td>
<td>8</td>
<td>8</td>
<td>23</td>
<td>5</td>
</tr>
<tr>
<td>Others Countries</td>
<td>8</td>
<td>5</td>
<td>6</td>
<td>2</td>
</tr>
</tbody>
</table>

Organizational Resources

It is hypothesized that Thai exporters are exported to processes different level of resources that lead then to adopt difference branding strategy. A one-way ANOVA there were performed. Mean values and the results of one-way ANOVA are presented in Table 2. Among own-brand exporters, it is noted that two items classified under reputation resources are highly ranked – the quality of the products (mean value = 4.13); and distinctive brand image (mean value = 3.61). The importance of these two items is also noted among exporters of buyers’ brand. The quality of the products registered (mean value = 3.80), and the distinctiveness of brand image registered (mean value = 3.60). However, there is another item under manufacturing resources, that is the state of the art technology, also registered (mean value = 3.60). The importance of the quality of the product is also featured among exporters of non-branded products (mean
value = 3.64). However the availability of working capital to finance export business (mean value = 3.89) is ranked higher. This is also true among exporters using dual brand. The importance of ability to communicate in foreign languages is a feature of exporters’ dual brand when it occupies the second spot among the twenty two items measuring organizational resources.

The one-way ANOVA results show that the four groups of exporters are different with respect to one item each under reputation and financial resources; five items under human resources; and two items under technology and R & D resources. The dual brands exporters are notably possess superior resources of in terms of human capital; financial resources and technology. In addition to financial resources, the own brand exporters exhibit superior resources in terms of reputation. Reputation resources are also featured among exporters of buyers’ brand. The other resource that characterized exporters of buyers’ brand are the investment in cutting-edge process technology oriented R&D.

**Table 2 Testing Organizational Resources and Brand**

<table>
<thead>
<tr>
<th>Brand Organizational Resources</th>
<th>Brand</th>
<th>F-value</th>
<th>Duncan’s Range Test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>G1 Own Brand (n=38)</td>
<td>G2 Dual Brand (n=19)</td>
<td>G3 Buyer Brand (n=45)</td>
</tr>
<tr>
<td>Reputation Resources</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our firm have the reputation</td>
<td>3.00</td>
<td>2.95</td>
<td>3.33</td>
</tr>
<tr>
<td>For superior management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our firm have the reputation</td>
<td><strong>3.61</strong></td>
<td>3.05</td>
<td><strong>3.60</strong></td>
</tr>
<tr>
<td>For distinctive brand image</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality of our product</td>
<td>4.13</td>
<td>3.79</td>
<td>3.80</td>
</tr>
<tr>
<td>compared well with</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>competitor products</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Resources</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our firm have the financial</td>
<td>3.16</td>
<td>3.42</td>
<td>3.18</td>
</tr>
<tr>
<td>resources to pursue business</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>expansion</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our firm have financial</td>
<td>3.31</td>
<td>3.47</td>
<td>3.38</td>
</tr>
<tr>
<td>resources to be devoted to</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>export activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our firm can offer</td>
<td>2.97</td>
<td>3.58</td>
<td>3.16</td>
</tr>
<tr>
<td>competitive credit terms to</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>overseas buyers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our firm have working</td>
<td>3.05</td>
<td><strong>3.89</strong></td>
<td>3.38</td>
</tr>
<tr>
<td>capital to finance export</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>businesses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our firm devote significant</td>
<td>2.66</td>
<td>3.26</td>
<td>2.98</td>
</tr>
<tr>
<td>budget to develop</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>internationally oriented</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>managers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our firm spend a great deal</td>
<td>2.47</td>
<td><strong>3.63</strong></td>
<td>2.93</td>
</tr>
<tr>
<td>of money to recruit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>managers with experience in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>international business</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Managers in our firm are</td>
<td>2.68</td>
<td><strong>3.84</strong></td>
<td>2.91</td>
</tr>
<tr>
<td>fluent in many foreign</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>languages compared to our</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>competitors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Managers in our firm are</td>
<td>2.89</td>
<td><strong>3.79</strong></td>
<td>3.38</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Branding Strategy of Thai Exporters: Analyzing Differences in Resources

capable of working in diverse cultural environment

2. Managers in our firm hold key positions in export oriented business associations
   2.16 3.42 2.44 1.91 8.12* G4, G1, G3 vs G2

3. Managers in our firm are well trained to handle international business negotiation
   2.79 3.63 3.33 3.09 3.60* G1 vs G2

Table 2 Continued...

<table>
<thead>
<tr>
<th>Brand Organizational Resources</th>
<th>Brand</th>
<th>F-value</th>
<th>Duncan’s Range Test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>G1 Own Brand (n=38)</td>
<td>G2 Dual Brand (n=19)</td>
<td>G3 Buyer Brand (n=45)</td>
</tr>
<tr>
<td>Manufacturing Resources</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Our firm use of modern production facilities</td>
<td>3.47</td>
<td>3.32</td>
<td>3.36</td>
</tr>
<tr>
<td>15. Our production facilities are more advanced than those of our competitors</td>
<td>3.03</td>
<td>3.32</td>
<td>3.38</td>
</tr>
<tr>
<td>16. Our production facilities are of state-of-the-art technology</td>
<td>3.37</td>
<td>3.32</td>
<td>3.60</td>
</tr>
<tr>
<td>R &amp; D and Technology Resources</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17. Our firm invest in cutting-edge product-oriented R&amp;D</td>
<td>2.87</td>
<td>3.21</td>
<td>3.09</td>
</tr>
<tr>
<td>18. Our firm invest in cutting-Edge process technology-oriented R&amp;D</td>
<td>2.66</td>
<td>2.95</td>
<td>3.00</td>
</tr>
<tr>
<td>19. Our firm has introduced many new products or services</td>
<td>2.82</td>
<td>3.37</td>
<td>2.87</td>
</tr>
<tr>
<td>20. Our firm provide online product catalog to customers</td>
<td>2.18</td>
<td>1.89</td>
<td>2.49</td>
</tr>
<tr>
<td>21. Our firm provide online support to distributors/dealers</td>
<td>1.95</td>
<td>2.05</td>
<td>2.38</td>
</tr>
<tr>
<td>22. Our firm use Web site visitor information for marketing</td>
<td>2.68</td>
<td>3.68</td>
<td>2.67</td>
</tr>
</tbody>
</table>

* Significant

DISCUSSION

The firm experience and knowledge acquired in the domestic market should provide impetus for market expansion. Expanding into international market requires substantial investment in resources. The investment is necessary to understand and transfer the firm’s competitive advantage in the domestic market to international market. This study examines the differences among firms based on branding strategy. The objective is to assess the potentials of those exporters (buyers brand and no brand) to another level of export expansion path. The findings of this study indicate these two groups of exporters are relatively poor in resources related to the human capital, and also with respect to R & D and technological resources. They exhibit commendable resources in manufacturing and financial aspects. The findings highlighted that exporters adopting dual branding strategy (own and buyers’ brand) possess
superior resources in human capital. While exporters own brand tend to be modest in their assessment of the internal resources. Overall, the Thai exporters possess manufacturing resources, financial resources as well as reputation resources. To graduate to “dual brand exporters”, it appears that they have to upgrade the human resources. Recruitment of internationally oriented managers is important. Another alternative action is to buy international brands and leapfrog the internationalization process. This would also demand the Thai exporters and have substantial financial resources and to adopt a learning orientation culture.

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Selecting a Technical Service Provider: A Multi-Criteria Approach

ABSTRACT

The analytic hierarchy process (AHP) has been used to identify the best technical service provider to perform a field development plan (FDP) document of Field X in the oil and gas industry. AHP structures a multiple criteria decision Making (MCDM) problem by developing a decision hierarchy which presents the relationships of goal, criteria and alternatives. In the present problem, the Technology Capability and the Project Deliverability criteria show the highest overall weights, which are 0.270 and 0.244, respectively, while Reliability of the Company and Technology Transfer have similar weights; those are 0.067 and 0.069, respectively. The Cost criterion is the third highest, and the Track Record Performance criterion is the fourth highest, 0.188 and 0.162, respectively. The Provider 5 (0.2895) and Provider 1 (0.2546) have the highest and the second highest of the overall weights. That means, based on AHP, the Provider 5 is selected as the provider to conduct the works of developing FDP for the Field X.

Keywords: Oil and gas industry, Field development plan (FDP), Supplier selection, Analytic Hierarchy Process

Introduction

Oil price is at high level and it seems will continue to be high in the next few years. Oil prices has increased exponentially from early 2005 to the present years. Although the last few years the world economic indicates slowing down and continuing to mid of 2010. Oil price has been indicating around $100 per barrel in the last several months. If we expect the economic recovery would be in place for the next coming years, with this premise, we expect the oil price would be on the range of $ 90 to 110 per barrel.

On the other hand, the production performance as the source of generating revenue to the company in most of the major fields is declining. Routine optimization could not be able to stop the production decline. After the peak production in around 1996 the production continues to decline till the current date. If there is no a major study to assess comprehensively the potential of the field, the production will continue to decline. With these consequences, the abandonment of the Field X could be predicted in the short coming period. This means that the reserve replacement to the Company will not be achieved. This means that the performance of the Company overall will be declined.

The question is how to resolve the problem. A comprehensive study to evaluate the Field X is a must. The potential of the field is there. The current recovery is about 34% 3. This means that there is still potential to recover more. All the optimization works with the primary method have been conducted. The next step is the assessment should go beyond the primary recovery. Meaning that the works need involvement all major disciplines from Geologist,
Geophysicist, Petro physicist, Geo Modeller, Reservoir Simulation Engineer with EOR background, Production Technologist, Drilling Engineer, Completion Engineer, Facility Engineer, and Project Economist. The next question is how to gather these resources, is there any in house expertise available to do the works with commitment time frame?

From the current assessment of the corporate level, the staff level to conduct the existing works is even still a gap. Some recruitment processes have been conducted but the suitable candidate showed unpromising. This means that Team who is responsible for Field X has to outsource the works to a technical service provider.

In summary, due to the following reasons: oil price is relative stable at high price and continue to stay or rise in the next few years, production performance indicates declining, the Field X still has potential to be recovered more, limited resources to conduct in house study, and at the current situation the Government is asking to boost the production as high as possible to fill the gap, therefore the Team has to prepare a document to conduct a bidding to look for a qualified technical service provider.

**Methodology**

*Analytic Hierarchy Process (AHP) Method*

The approach of selecting the technical service providers is by using the Analytic Hierarchy Process (AHP) method. This method is a multi-criteria decision making tool. AHP is the method that can be used to solve multi-criteria decision making (MCDM) problem. This method has been applied in many other areas, such as accounting, conflict analysis, energy, finance, health, marketing, portfolio management, R & D management, risk analysis, technology, many other areas.

AHP structures a MCDM problem by developing a decision hierarchy which presents the relationships of goal, criteria, sub-criteria (if it is required), and alternatives. The following are steps to proceed the selecting the technical service provider: Define the goal or objective, define the criteria of to select a technical provider, identify alternatives, develop questionnaires, conduct survey, analyze the results, and derive a conclusion.

Figure 1 shows a general structure of the decision hierarchy involving four major criteria and five alternatives. The each criterion 1 and 2 has two sub-criteria, while criterion 3 and 4 does not have sub-criteria.
Figure 1: General structure of a decision hierarchy involving four major criteria and five alternatives.

There are four steps to solve a MCDM problem by AHP Method as follows: Step 1 - Decompose the problem at hand and find out the salient factors and elements (criteria, sub-criteria and alternatives) of the problem. Then construct the linear hierarchy of the problem, see Figure 1. Step 2 - Construct pairwise comparison matrices for all the criteria, sub-criteria (if available), and alternatives. Step 3 - Determine the weights of each criteria, sub-criteria (if available) and alternatives from the pairwise comparison matrices obtained is Step 2 by using a suitable weight determination technique. Step 4 - Synthesize all the local set of weights computed in Step 3 and obtain a set of overall weights for the alternatives.

Goal
The goal of this paper is to select the best technical service provider to deliver a field development plan (FDP) of the Field X based on the following scope of works has to be completed within 24 months. The scope of works includes updating the static model, updates the dynamic model, conducts enhanced oil recovery (EOR) screening, conducts prediction performance for EOR alternatives, develops a development concept, estimates cost, and documents the results into a field development plan (FDP) of the Field X.

Define Criteria to select the objective
After defining the goal, we need to define the criteria. The criteria could be as many we could define, and then we assign a weight to each criterion. For this paper, we select the first top 5 criteria to make exercise. Those five criteria are as the following: Project Deliverability (PD), Technical Capability (TC), Reliability Company (RC), Track Record Performance (TR), Cost (CT), and Technology Transfer (TT)

Identify alternatives
The next step we identify alternatives. The alternatives are the technical service providers worldwide including the regional and local players. Among the list, there are selected five alternatives that could be able to deliver the work scopes. Those alternatives are as follows:

<table>
<thead>
<tr>
<th>No.</th>
<th>Provider Code</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Provider 01</td>
<td>International major technical service provider</td>
</tr>
<tr>
<td>2</td>
<td>Provider 02</td>
<td>Regional technical service provider</td>
</tr>
<tr>
<td>3</td>
<td>Provider 03</td>
<td>Regional technical service provider</td>
</tr>
<tr>
<td>4</td>
<td>Provider 04</td>
<td>International major technical service provider</td>
</tr>
<tr>
<td>5</td>
<td>Provider 05</td>
<td>International technical service provider</td>
</tr>
</tbody>
</table>

Survey
The survey was conducted through a questionnaire. There were 15 questionnaires which were sent to the high rank technical expertise within the Company. The questionnaire contains five main parts:
Part A – Asking about personal information.
Part B – Regarding the technical service providers; asking to make an overall ranking, and comparisons of performance or priority by rating according to the given scales.
Part C – Asking about the criteria selecting the technical providers. There are two parts here, first part is asking make overall ranking of the criteria, second part is asking to compare the criteria by rating based on its importance using the scales which are given.

Part D – Asking to give a response on the pairwise comparison matrix (PCM) of the alternatives with respect to each criteria. To have good quality responses, we need to call or visit one by one of the respondents to give a clarification to what we really asking about.

**Survey results**

Fifteen questionnaires were sent to the selected high rank technical persons within the Company. Eleven completed questionnaires were returned. The demography of the respondents can be seen on Figure 2. The gender indicates that is only one female (9%), and the rest are male.

The education background shows majorities having doctorate background (46%), followed by master background (36%). The age group indicates that the respondents are majority from very experienced geoscientists (46%) and follows middle age experienced geoscientists (36%). The age group has correlation with the involvement of the respondent on having bidding experiences. The majority of the respondents have involvement on the technical bidding activities: more than 3 times (55%), one to three times involvement (36%), and only 9% population has not involve on the bidding process. The results of the questionnaires are then entered into a spread sheet template.

**Solving the technical service provider problem by using AHP**

As mentioned on Section 2.1 above, after defining the goal, criteria and alternatives, we construct the linear hierarchy of the problem. Figure 3 shows the hierarchy of the technical service provider selection.
The next step is to determine the weights of each criteria. We compute the weights of the criteria by using Saaty’s pairwise comparison method. To apply pairwise comparison method, we need to form a pairwise comparison matrix (PCM) for all the criteria. To construct this matrix, we use Saaty’s (1/9, 9) ratio scale. Table 1 shows the interpretation of this scale.

Table 1: Saaty’s (1/9, 9) ratio scale.

<table>
<thead>
<tr>
<th>Verbal judgement of importance</th>
<th>Numerical rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equal important</td>
<td>1</td>
</tr>
<tr>
<td>Equal to moderate important</td>
<td>2</td>
</tr>
<tr>
<td>Moderate importance</td>
<td>3</td>
</tr>
<tr>
<td>Moderate to strong important</td>
<td>4</td>
</tr>
<tr>
<td>Strong importance</td>
<td>5</td>
</tr>
<tr>
<td>Strong to very strong important</td>
<td>6</td>
</tr>
<tr>
<td>Very strong important</td>
<td>7</td>
</tr>
<tr>
<td>Very strong to extremely strong important</td>
<td>8</td>
</tr>
<tr>
<td>Extreme important</td>
<td>9</td>
</tr>
</tbody>
</table>

The general form of a criteria PCM is as follows:
Selecting a Technical Service Provider: A Multi-Criteria Approach

Where \( W_1, W_2, W_3, \ldots, W_n \) are the numerical weights of the criteria \( C_1, C_2, C_3, \ldots, C_n \) respectively. According to the interpretation of \((1/9, 9)\) ratio scale, for example on the above table, if criteria \( C_1 \) is moderate importance to \( C_2 \), then \( W_1/W_2 = 3 \). If \( C_1 \) is strongly more important over \( C_3 \), then \( W_1/W_3 = 5 \). By combining the weight of each criteria with respect other criteria using a guideline of the Table 1 Saaty’s \((1/9, 9)\) ratio scale, we could fill the above table for each \( W_i/W_j \) where \( i,j = 1,2,3,\ldots,n \). Table 2 provides an example of verbal judgement for one of the respondents.

Table 2: Verbal judgment pertaining to the important of the technical service Provider selection criteria.

1). Project deliverability
   => equal to moderate important to technical capability (2)
   => strong important to reliability company (5)
   => moderate to strong to track record performance (4)
   => moderate important to cost (3)
   => strong to very strong important to technology transfer (6)

2). Technical capability
   => strong important to reliability company (5)
   => moderate to strong important to track record performance (4)
   => moderate important to cost (3)
   => strong to very strong important to reliability company (6)

3). Reliability company
   => equal to moderate less important to track record performance (1/2)
   => moderate less important to cost (1/3)
   => equal to moderate important to technical technology transfer (2)

4). Track record performance
   => equal to moderate less important to cost (1/2)
   => equal to moderate important to technology transfer (2)

5). Cost
   => moderate to strong important to technology transfer (4)

There are three steps to compute the weight of each criteria using this procedure2, 4: (a) sum the values in each column of the PCM, (b) divide each element in the matrix by its column total. This is referred to as the normalized PCM, (c) compute the average of the elements in each row of the normalize matrix to get the weight of each criteria. Table 3 shows the
computation of weights by using row-column normalization procedure from the questionnaire respondent of #05.

Table 3: Computation of weight for the criteria by using row-column normalization procedure.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Step a</th>
<th>Step b</th>
<th>Step c</th>
</tr>
</thead>
<tbody>
<tr>
<td>PD</td>
<td>1.000</td>
<td>0.214</td>
<td>0.209</td>
</tr>
<tr>
<td>TC</td>
<td>2.000</td>
<td>0.429</td>
<td>0.324</td>
</tr>
<tr>
<td>RB</td>
<td>0.333</td>
<td>0.071</td>
<td>0.043</td>
</tr>
<tr>
<td>TRP</td>
<td>0.500</td>
<td>0.107</td>
<td>0.189</td>
</tr>
<tr>
<td>CT</td>
<td>0.500</td>
<td>0.071</td>
<td>0.162</td>
</tr>
<tr>
<td>TT</td>
<td>0.333</td>
<td>0.107</td>
<td>0.209</td>
</tr>
</tbody>
</table>

Measuring consistency in decision making judgments

We need to measure the consistency of the above response to make sure that his judgments are consistent. There are several steps to calculate the consistency.

Step a - multiply the first column by the weight of the first criterion. Next multiply the second column by the weight of the second criterion, and so on. Add the elements across the rows. This gives us a weighted sum vector.

Step b - divide each element of the weighted sum vector by the weights of the criteria. First element should be divided by the weight of the first criterion; second element should be divided by the weight of the second criterion, and so on. This division gives us the consistency vector.

Step c – Calculate the average of the elements of the consistency vector, which is called “lambda” and it is denoted by $\lambda$. In this case $\lambda = 6.31$.

Step d – Calculate the consistency index (CI) by using the following formula:

$$CI = (\lambda - n) / (n-1)$$

$$CI = (6.31-6)/(6-1) = 0.0615$$

CI provides a measure of departure from consistency. When CI = 0 (meaning that $\lambda = n$), the PCM is perfectly consistent (there is no inconsistency in the PCM).

Step e – Calculate the consistency ratio (CR). This is the actual measure of consistency. It is defined as follows:

$$CR = CI/RI$$

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This value is taken from the random indexes for various size of the PCM. For the size of PCM in this case is 6, so the RI is equal to 1.24. Therefore we can calculate CR which is equal to 0.05. The CR is used to see to what extent the elements in the PCM are randomly arranged. If the CR value is less than 0.10, the amount of inconsistency present in the PCM is acceptable. In the case of our case, it is acceptable since CR is equal to 0.05. For each respondent, we calculate using similar approaches.

The next procedure is to compute the PCM of the alternatives with respect to each criterion. Similar to Table 3, we also compute the weight for the alternatives with respect to each criterion by using row-column normalization procedure. This procedure is similar to the procedure as of the evaluating criteria. All respondents are calculated independently. For this example, we use respondent of #5. This is similar to the Table 3 above.
### Table 4a: Computation of weight for the alternatives with respect to each criterion by using row-column normalization procedure of the respondent #05.

#### PD - Project delivery

<table>
<thead>
<tr>
<th>Provider</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provider 1</td>
<td>1000</td>
<td>4000</td>
<td>3000</td>
<td>1000</td>
<td>1000</td>
<td>0.279</td>
<td>0.400</td>
<td>0.353</td>
<td>0.182</td>
<td>0.250</td>
<td>0.293</td>
</tr>
<tr>
<td>Provider 2</td>
<td>0.250</td>
<td>1000</td>
<td>0.500</td>
<td>1000</td>
<td>0.500</td>
<td>0.070</td>
<td>0.100</td>
<td>0.059</td>
<td>0.182</td>
<td>0.125</td>
<td>0.297</td>
</tr>
<tr>
<td>Provider 3</td>
<td>0.333</td>
<td>2000</td>
<td>1000</td>
<td>0.500</td>
<td>1000</td>
<td>0.347</td>
<td>0.300</td>
<td>0.133</td>
<td>0.182</td>
<td>0.250</td>
<td>0.194</td>
</tr>
<tr>
<td>Provider 4</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>0.500</td>
<td>1000</td>
<td>0.347</td>
<td>0.300</td>
<td>0.133</td>
<td>0.182</td>
<td>0.250</td>
<td>0.194</td>
</tr>
<tr>
<td>Provider 5</td>
<td>1000</td>
<td>2000</td>
<td>2000</td>
<td>1000</td>
<td>1000</td>
<td>0.279</td>
<td>0.200</td>
<td>0.235</td>
<td>0.364</td>
<td>0.250</td>
<td>0.266</td>
</tr>
</tbody>
</table>

#### TC - Technical capability

<table>
<thead>
<tr>
<th>Provider</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provider 1</td>
<td>1000</td>
<td>4000</td>
<td>3000</td>
<td>1000</td>
<td>1000</td>
<td>0.324</td>
<td>0.308</td>
<td>0.400</td>
<td>0.308</td>
<td>0.324</td>
<td>0.333</td>
</tr>
<tr>
<td>Provider 2</td>
<td>0.250</td>
<td>1000</td>
<td>0.500</td>
<td>1000</td>
<td>0.500</td>
<td>0.250</td>
<td>0.250</td>
<td>0.077</td>
<td>0.077</td>
<td>0.077</td>
<td>0.077</td>
</tr>
<tr>
<td>Provider 3</td>
<td>0.333</td>
<td>2000</td>
<td>1000</td>
<td>0.500</td>
<td>1000</td>
<td>0.347</td>
<td>0.347</td>
<td>0.133</td>
<td>0.133</td>
<td>0.133</td>
<td>0.133</td>
</tr>
<tr>
<td>Provider 4</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>0.500</td>
<td>1000</td>
<td>0.347</td>
<td>0.347</td>
<td>0.133</td>
<td>0.133</td>
<td>0.133</td>
<td>0.133</td>
</tr>
<tr>
<td>Provider 5</td>
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<td>1000</td>
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<td>0.287</td>
<td>0.308</td>
<td>0.324</td>
<td>0.338</td>
</tr>
</tbody>
</table>

#### RB - Reliability company

<table>
<thead>
<tr>
<th>Provider</th>
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<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provider 1</td>
<td>1000</td>
<td>3000</td>
<td>3000</td>
<td>1000</td>
<td>2000</td>
<td>0.308</td>
<td>0.308</td>
<td>0.400</td>
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<td>0.308</td>
<td>0.308</td>
</tr>
<tr>
<td>Provider 2</td>
<td>0.333</td>
<td>1000</td>
<td>1000</td>
<td>0.500</td>
<td>0.500</td>
<td>0.105</td>
<td>0.111</td>
<td>0.125</td>
<td>0.125</td>
<td>0.125</td>
<td>0.125</td>
</tr>
<tr>
<td>Provider 3</td>
<td>0.333</td>
<td>1000</td>
<td>1000</td>
<td>0.500</td>
<td>0.500</td>
<td>0.105</td>
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<td>0.125</td>
<td>0.125</td>
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<td>0.125</td>
</tr>
<tr>
<td>Provider 4</td>
<td>1000</td>
<td>2000</td>
<td>2000</td>
<td>1000</td>
<td>1000</td>
<td>0.351</td>
<td>0.222</td>
<td>0.250</td>
<td>0.250</td>
<td>0.250</td>
<td>0.250</td>
</tr>
<tr>
<td>Provider 5</td>
<td>0.500</td>
<td>2000</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>0.166</td>
<td>0.222</td>
<td>0.250</td>
<td>0.250</td>
<td>0.250</td>
<td>0.250</td>
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#### TRP - Track record performance

<table>
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<tr>
<th>Provider</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provider 1</td>
<td>1000</td>
<td>4000</td>
<td>2000</td>
<td>2000</td>
<td>1000</td>
<td>0.308</td>
<td>0.286</td>
<td>0.267</td>
<td>0.343</td>
<td>0.324</td>
<td>0.324</td>
</tr>
<tr>
<td>Provider 2</td>
<td>0.250</td>
<td>1000</td>
<td>0.500</td>
<td>0.333</td>
<td>0.250</td>
<td>0.077</td>
<td>0.071</td>
<td>0.067</td>
<td>0.057</td>
<td>0.081</td>
<td>0.071</td>
</tr>
<tr>
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<td>0.500</td>
<td>2000</td>
<td>1000</td>
<td>0.500</td>
<td>0.333</td>
<td>0.154</td>
<td>0.111</td>
<td>0.125</td>
<td>0.125</td>
<td>0.125</td>
<td>0.125</td>
</tr>
<tr>
<td>Provider 4</td>
<td>1000</td>
<td>2000</td>
<td>2000</td>
<td>1000</td>
<td>1000</td>
<td>0.351</td>
<td>0.222</td>
<td>0.250</td>
<td>0.250</td>
<td>0.250</td>
<td>0.250</td>
</tr>
<tr>
<td>Provider 5</td>
<td>0.500</td>
<td>2000</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>0.166</td>
<td>0.222</td>
<td>0.250</td>
<td>0.250</td>
<td>0.250</td>
<td>0.250</td>
</tr>
</tbody>
</table>

#### CT - Cost

<table>
<thead>
<tr>
<th>Provider</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
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<td>0.500</td>
<td>0.500</td>
<td>1000</td>
<td>1000</td>
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<tr>
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<td>1000</td>
<td>1000</td>
<td>2000</td>
<td>2000</td>
<td>0.286</td>
<td>0.286</td>
<td>0.286</td>
<td>0.286</td>
<td>0.286</td>
<td>0.286</td>
</tr>
<tr>
<td>Provider 3</td>
<td>2000</td>
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<td>2000</td>
<td>2000</td>
<td>0.286</td>
<td>0.286</td>
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<td>Provider 5</td>
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<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>0.143</td>
<td>0.250</td>
<td>0.143</td>
<td>0.143</td>
<td>0.143</td>
<td>0.143</td>
</tr>
</tbody>
</table>

#### TT - Technology transfer

<table>
<thead>
<tr>
<th>TT</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provider 1</td>
<td>1000</td>
<td>0.333</td>
<td>0.333</td>
<td>1000</td>
<td>1000</td>
<td>0.107</td>
<td>0.100</td>
<td>0.107</td>
<td>0.107</td>
<td>0.107</td>
<td>0.107</td>
</tr>
<tr>
<td>Provider 2</td>
<td>1000</td>
<td>0.333</td>
<td>0.333</td>
<td>1000</td>
<td>1000</td>
<td>0.107</td>
<td>0.100</td>
<td>0.107</td>
<td>0.107</td>
<td>0.107</td>
<td>0.107</td>
</tr>
<tr>
<td>Provider 3</td>
<td>1000</td>
<td>0.500</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>0.107</td>
<td>0.250</td>
<td>0.107</td>
<td>0.107</td>
<td>0.107</td>
<td>0.107</td>
</tr>
<tr>
<td>Provider 4</td>
<td>1000</td>
<td>0.500</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>0.107</td>
<td>0.250</td>
<td>0.107</td>
<td>0.107</td>
<td>0.107</td>
<td>0.107</td>
</tr>
<tr>
<td>Provider 5</td>
<td>1000</td>
<td>0.500</td>
<td>1000</td>
<td>1000</td>
<td>1000</td>
<td>0.107</td>
<td>0.250</td>
<td>0.107</td>
<td>0.107</td>
<td>0.107</td>
<td>0.107</td>
</tr>
</tbody>
</table>
Table 4b: Synthesis results to obtain the global (overall) weight for the respondent of #05.

<table>
<thead>
<tr>
<th></th>
<th>PD</th>
<th>TC</th>
<th>RB</th>
<th>TRP</th>
<th>CT</th>
<th>TT</th>
<th>Overall Weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provider 1</td>
<td>0.293</td>
<td>0.333</td>
<td>0.335</td>
<td>0.305</td>
<td>0.136</td>
<td>0.101</td>
<td>0.265</td>
</tr>
<tr>
<td>Provider 2</td>
<td>0.107</td>
<td>0.077</td>
<td>0.113</td>
<td>0.071</td>
<td>0.271</td>
<td>0.291</td>
<td>0.138</td>
</tr>
<tr>
<td>Provider 3</td>
<td>0.150</td>
<td>0.131</td>
<td>0.113</td>
<td>0.125</td>
<td>0.296</td>
<td>0.291</td>
<td>0.177</td>
</tr>
<tr>
<td>Provider 4</td>
<td>0.184</td>
<td>0.153</td>
<td>0.248</td>
<td>0.194</td>
<td>0.136</td>
<td>0.135</td>
<td>0.167</td>
</tr>
<tr>
<td>Provider 5</td>
<td>0.266</td>
<td>0.306</td>
<td>0.191</td>
<td>0.305</td>
<td>0.161</td>
<td>0.182</td>
<td>0.254</td>
</tr>
<tr>
<td>Overall</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Table 4a shows PCM and a computation of weight for the alternatives with respect to each criterion by using row-column normalization procedure for the respondent #05. The calculation of Table 4a is similar to the calculation of Table 3. Table 4b shows synthesis results to obtain the global (overall) weight for the respondent of #05. The overall weights of each provider are calculated by using the following formula:

$$W_j = \sum_{i=1}^{n} p_i q_{ij}$$

Where pi, i=1,2,3….n are the weights of the criteria and qij, j=1,2,3….m are the weight of the alternatives ‘j’ with respect to criterion ‘i’. By applying this formula we can calculate the global (overall) weight of each alternative. From Table 4b has found that the overall weight for Provider 1, Provider 2, Provider 3, Provider 4, and Provider 5 are 0.265, 0.138, 0.177, 0.167, and 0.254 respectively. Therefore the Provider 5 has the highest overall weight among the others. This calculation is based on one respondent. We have to calculate with similar method other respondents.

After completing calculating for each respondent, then develop an average value for each element, both the criteria and the alternatives. The average method that we use is a geometric mean (geometric average). The geometric mean of a data set \(\{a_1, a_2, \ldots, a_n\}\) is given by the following formula:
\[
\left( \prod_{i=1}^{n} a_i \right)^{1/n} = \sqrt[n]{a_1 a_2 \cdots a_n}.
\]

Where \( a \) is value for each element for each respondent and \( n \) is the total number of respondents.

Table 5: Geometric mean of PCM of each criterion.

<table>
<thead>
<tr>
<th></th>
<th>PD</th>
<th>TC</th>
<th>RB</th>
<th>TRP</th>
<th>CT</th>
<th>TT</th>
<th>PD</th>
<th>TC</th>
<th>RB</th>
<th>TRP</th>
<th>CT</th>
<th>TT</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>PD</td>
<td>1.000</td>
<td>0.906</td>
<td>3.257</td>
<td>1.739</td>
<td>1.426</td>
<td>3.120</td>
<td>0.250</td>
<td>0.249</td>
<td>0.224</td>
<td>0.273</td>
<td>0.254</td>
<td>0.213</td>
<td>0.244</td>
</tr>
<tr>
<td>TC</td>
<td>1.104</td>
<td>1.000</td>
<td>3.394</td>
<td>1.739</td>
<td>1.641</td>
<td>4.000</td>
<td>0.275</td>
<td>0.275</td>
<td>0.233</td>
<td>0.273</td>
<td>0.293</td>
<td>0.273</td>
<td>0.270</td>
</tr>
<tr>
<td>RB</td>
<td>0.307</td>
<td>0.295</td>
<td>1.000</td>
<td>0.403</td>
<td>0.307</td>
<td>0.855</td>
<td>0.077</td>
<td>0.081</td>
<td>0.069</td>
<td>0.063</td>
<td>0.055</td>
<td>0.058</td>
<td>0.067</td>
</tr>
<tr>
<td>TRP</td>
<td>0.575</td>
<td>0.575</td>
<td>2.479</td>
<td>1.000</td>
<td>0.906</td>
<td>2.627</td>
<td>0.144</td>
<td>0.158</td>
<td>0.170</td>
<td>0.157</td>
<td>0.162</td>
<td>0.179</td>
<td>0.162</td>
</tr>
<tr>
<td>CT</td>
<td>0.701</td>
<td>0.610</td>
<td>3.257</td>
<td>1.104</td>
<td>1.000</td>
<td>3.045</td>
<td>0.175</td>
<td>0.168</td>
<td>0.224</td>
<td>0.173</td>
<td>0.178</td>
<td>0.208</td>
<td>0.188</td>
</tr>
<tr>
<td>TT</td>
<td>0.320</td>
<td>0.250</td>
<td>1.170</td>
<td>0.381</td>
<td>0.328</td>
<td>1.000</td>
<td>0.080</td>
<td>0.069</td>
<td>0.080</td>
<td>0.060</td>
<td>0.059</td>
<td>0.068</td>
<td>0.069</td>
</tr>
<tr>
<td>Sum</td>
<td>4.008</td>
<td>3.635</td>
<td>14.557</td>
<td>6.365</td>
<td>5.608</td>
<td>14.648</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Legend: PD= Project deliverability, TC= Technical capability, RB= Reliability company, TRP= Track record company, CT= Cost, TT= Technology transfer

Table 5 shows summarizing the results PCM for each criterion using the geometric mean as mentioned above. Technical Capability and Project Deliverability criteria have the highest and second highest overall weight, while Reliable Company criterion has the lowest overall weight. The next step is calculating the alternatives with respect to each criterion. Similar approach to the Table 5 above, we calculate each element using the geometric mean also. Table 6a shows the results of the alternatives with respect to each criteria. With respect to Project Delivery, Provider 5 and Provider 4 have the first and the second highest weight value; those are 0.329 and 0.291 respectively. Similarly with respect to Technical Provider, these both providers have the first and second highest weight value; those 0.359 and 0.259 respectively.
Table 6a: PCM of the alternatives with respect to the criteria.

<table>
<thead>
<tr>
<th>PD: Project delivery</th>
<th>Provider 1</th>
<th>Provider 2</th>
<th>Provider 3</th>
<th>Provider 4</th>
<th>Provider 5</th>
<th>Provider 1</th>
<th>Provider 2</th>
<th>Provider 3</th>
<th>Provider 4</th>
<th>Provider 5</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provider 1</td>
<td>1.000</td>
<td>0.918</td>
<td>0.918</td>
<td>1.000</td>
<td>0.918</td>
<td>0.918</td>
<td>0.918</td>
<td>0.918</td>
<td>0.918</td>
<td>0.918</td>
<td>1.000</td>
</tr>
<tr>
<td>Provider 2</td>
<td>0.276</td>
<td>1.000</td>
<td>0.610</td>
<td>0.505</td>
<td>0.300</td>
<td>0.077</td>
<td>0.086</td>
<td>0.081</td>
<td>0.078</td>
<td>0.099</td>
<td>0.084</td>
</tr>
<tr>
<td>Provider 3</td>
<td>0.397</td>
<td>1.841</td>
<td>1.000</td>
<td>0.908</td>
<td>0.543</td>
<td>0.111</td>
<td>0.142</td>
<td>0.334</td>
<td>0.140</td>
<td>0.179</td>
<td>0.141</td>
</tr>
<tr>
<td>Provider 4</td>
<td>0.552</td>
<td>1.982</td>
<td>1.104</td>
<td>1.000</td>
<td>0.445</td>
<td>0.155</td>
<td>0.171</td>
<td>0.148</td>
<td>0.150</td>
<td>0.165</td>
<td>0.156</td>
</tr>
<tr>
<td>Provider 5</td>
<td>1.346</td>
<td>3.337</td>
<td>2.246</td>
<td>2.246</td>
<td>1.000</td>
<td>0.377</td>
<td>0.288</td>
<td>0.300</td>
<td>0.347</td>
<td>0.330</td>
<td>0.329</td>
</tr>
<tr>
<td></td>
<td>3.571</td>
<td>11.577</td>
<td>7.481</td>
<td>6.467</td>
<td>3.031</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Table 6b: Summary of synthesis results in order to obtain the overall (global) weight; that is using the following equation: $W_f = \sum_{i=1}^{n} p_i q_{ij}$

This indicates that Provider 5 and Provider 1 have the highest and the second highest of the overall weight; those are 0.2895 and 0.2546 respectively, while the Provider 2 has the lowest overall weight; that is 0.1246.
Table 6b: Synthesis results to obtain the global weight.

<table>
<thead>
<tr>
<th></th>
<th>PD</th>
<th>TC</th>
<th>RB</th>
<th>TRP</th>
<th>CT</th>
<th>TT</th>
<th>Overall Weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provider 1</td>
<td>0.291</td>
<td>0.259</td>
<td>0.326</td>
<td>0.312</td>
<td>0.182</td>
<td>0.105</td>
<td>0.2546</td>
</tr>
<tr>
<td>Provider 2</td>
<td>0.084</td>
<td>0.093</td>
<td>0.114</td>
<td>0.078</td>
<td>0.217</td>
<td>0.258</td>
<td>0.1246</td>
</tr>
<tr>
<td>Provider 3</td>
<td>0.141</td>
<td>0.132</td>
<td>0.117</td>
<td>0.149</td>
<td>0.236</td>
<td>0.279</td>
<td>0.1656</td>
</tr>
<tr>
<td>Provider 4</td>
<td>0.155</td>
<td>0.158</td>
<td>0.241</td>
<td>0.168</td>
<td>0.182</td>
<td>0.111</td>
<td>0.1657</td>
</tr>
<tr>
<td>Provider 5</td>
<td>0.329</td>
<td>0.359</td>
<td>0.203</td>
<td>0.292</td>
<td>0.183</td>
<td>0.246</td>
<td>0.2895</td>
</tr>
<tr>
<td>Sum</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Discussion and Analysis

We have been discussing using the Analytic Hierarchy Process (AHP) to select the best candidate for the technical service provider to conduct the comprehensive study of the Field X to deliver the Field Development Plan (FDP) document. With this AHP method we could identify overall weight criteria. Figure 4 shows the results from the comprehensive processes of the AHP method of the selected criteria.

The Technology Capability and the Project Deliverability criteria show the highest overall weight; those are 0.270 and 0.244 respectively, while Reliability Company and Technology Transfer have similar lowest number of the overall weight; those are 0.067 and 0.069 respectively. The Cost criterion is the third highest, and the Track Record Performance criterion is the fourth highest; those are 0.188 and 0.162 respectively.

The Technology Capability criterion is consistent with the reality of the business activities. This criterion will determine the quality of the product and will drive the accuracy and level of comprehensiveness of the technical assessment. This criterion will assess the uncertainties of the business and mitigate them to reduce the risk. On the other hand, the Project Deliverability criterion is also reflecting the reality of the business. This criterion drives the critical issue to the project timeline of project deliverability.

Figure 4: Overall weight of the criteria.
Figure 5 shows the PCM of the alternatives with respect to each criterion. Provider 5 and Provider 1 for both technical capability and project delivery have the highest scores. These two criteria are essentially determining the higher global (overall) weight.

Figure 5: PCM of the alternatives with respect to each criterion.

Finally, Figure 6 shows the overall weight of the providers. The Provider 5 and Provider 1 have the first and second highest overall weight, 0.2895 and 0.2546 respectively. This means that Provider 1 is selected to be the provider to conduct the study to develop field development (FDP) of Field X. The key why Provider 5 has the highest score is that she has the highest technology capability where it is the main criterion which has the highest overall weight. Provider 2 has the lowest overall weight; that is 0.1246.

Figure 6: Overall weight of the providers.

Why the Provider 2 has the lowest overall weight? If we see Figure 6 above, Provider 02 has the lowest overall weight in three most important criteria, Technical Capability, Project Deliverability, and Track record performance. Figure 7 shows the comparison overall weight performances between Provider 2, Provider 5 and average overall providers.
Conclusion and Recommendation

Technical capability is the most important criterion (0.270), followed by Project Deliverability (0.244) in selecting technical consultant in oil and gas industry. Provider 5 has the highest global weight which is 0.290 followed by Provider 1 which is 0.255 both providers are the international player which already establish in oil and gas industry.

Provider 2 is the lowest in term of global weight, which is 0.125. This is regional base technical consultant company. She needs to improve in Technical Capability criterion and Project Deliverability criterion to compete with international player globally. We need to develop sub-criteria in service provider evaluation, especially for Technical Capability to represent more details of each discipline to access the technical competency in geology & geophysics, reservoir, production, drilling, completion and facilities, to get the best technical consultant in order to maximize the Company asset. We also need to conduct the survey to be more heterogenous population and improve the percentage of respondent response to see the deeper and better representative results.

Acknowledgement

The authors would like to thank to all the respondents who have provided the inputs and feedback developing this project. The author would like to thank to Mr. Masripan Salleh for having a discussion on selecting the topic.

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Entrepreneurial Orientation and Business Performance, the Moderating Role of Environmental Factors: A Study on Women Entrepreneurs in Somalia

ABSTRACT

Innovative and proactive firms that manage risk in a rational way will be more successful by capturing opportunities that rise in changing environment and develop new capacity to attain better performance. All these characteristics are formed by entrepreneur orientation. The main aim of this study is to examine the relationship between Entrepreneurial orientation on Business performance: the role of environmental determinants as a moderating variable, the study will conduct women entrepreneurs in Benadir region, sample size will be 380.

Key terms: Entrepreneur orientation, organizational performance, women entrepreneurs, environmental determinants Mogadishu

INTRODUCTION

Market trends and heightened competition in market place suggest that business firms, should intensify their effort to meet changing needs of customer and offer degree of service quality that satisfies by the customer along with to survive competitive environment magnified by major transformations of globalization. Business firms are in search for strategies that give them sustainable competitive advantage that is difficult to punch by competitors. Part of these strategies is to have differentiated product and process along with to be inventive and to anticipate potential technical and technological innovations (Lim, n.d). Number academic and business member experts have tried to examine the extent of entrepreneur behavior on business performance, Lumpkin and Dess (1996) described the process, practice and decision making activity of entrepreneur as entrepreneur orientation. Entrepreneur orientation is regarded being limited areas of entrepreneur researches that has gained substantial concept and empirical attention as body of knowledge is mounting (Rauch et al., 2004).

Most researches directed to entrepreneur orientation such miller (1983), coving and silver (1989), Lumpkin and Dess (1996) ,wiklund(1999), lee and chio (2000), Kreiser et al.,(2002), investigated the impact of entrepreneur orientation with different dimensions on business performance they found that entrepreneur orientation has positive relationship with business performance. Entrepreneur orientation is positively correlated to business performance but varies with variation of culture and personality traits (Rauch et al, 2004).

Most previous studies of entrepreneur orientation have been conducted in the developed nations where it’s difficult to find a study that investigates the effect of entrepreneur orientation on business performance in the infant industries in developing nations. As well as
Entrepreneurial orientation has been suggested as an attribute of high performing firms (Hafeez et al, 2012). Hence the main aim of this study is to investigate the impact of entrepreneur orientation in telecommunication companies in Mogadishu–Somalia.

**PROBLEM STATEMENT**

In today’s unstable and highly competitive business environment general tendency is the shortening of product and business model life cycles, therefore future profits that will come from current business operations are uncertain and the firms are forced to constantly be involved in seeking out new opportunities. In this manner firms have to be innovative, involving concepts or activities that represent a departure from what is currently available concerning innovations of products, services or processes, have to be risk oriented, to try out new and uncertain products, services and markets and have to be more proactive then competitors toward new marketplace opportunities (Covin and Slevin, 1991).

Literature regarding entrepreneurial orientation states that if a firm adopts entrepreneurial strategic orientation it will achieve higher performance then a firm that adopts a bureaucratic or centralized management system to exercise control over as many variables as possible. This argument has received empirical support in the literature (Zahra, 1991; Zahra and Covin, 1995). Although, it sounds like an easily comprehensive relationship it is actually much more complex. Literature also mentions that some empirical research have not found any relation between firms entrepreneurial orientation and the firms performance (Smart and Contatnt, 1994). Therefore, Lumpkin and Dess (1996) state that previously mentioned relationship is a much more complex because it depends on the external as well on the internal organizational characteristics.

Research indicates that performance can be improved when key variables are correctly aligned (e.g., Naman & Slevin, 1993). This is the basic premise of contingency theory, which suggests that congruence or “fit” among key variables such as industry conditions and organizational processes is critical for obtaining optimal performance (Lawrence & Lorsch, 1967). Contingency theory holds that the relationship between two variables depends on the level of a third variable. Introducing moderators into vicariate relationships helps reduce the potential for misleading inferences and permits a “more precise and specific understanding” (Rosenberg, 1968, p. 100) of contingency relationships. Because of its concern with performance implications, contingency theory has been fundamental to furthering the development of the management sciences (Venkatraman, 1989b). Therefore, to understand differences in findings across studies, researcher investigated potential moderators of the relationship between EO and performance.

The literature discusses a number of variables that potentially moderate the EO– performance relationship (Lumpkin & Dess, 1996; Zahra & Covin, 1995; Zahra & Garvis, 2000). There is little consensus on what constitutes suitable moderators, however, and both internal variables such as knowledge (Wiklund & Shepherd, 2003), size of the business, industry is another variable that may moderate the relationship between EO and Performance.

Studies provide (Andreas, johan, et al, 2009) an estimate of the “true” relationship between EO and firm performance. The correlation of .242 is a benchmark that other studies can use to ask the question whether they have been able to increase explained variance, for example, by improving the scales of EO or by examining relevant moderators that may affect the EO–performance relationship. They suggest potential moderator variable include firm age, firm size and environmental variables, they said “it is time to open up EO research to new ideas.
and to further examine the role of moderators (e.g., Lumpkin & Dess, 1996). In the best of researcher knowledge there are no previous studies tested Entrepreneurship orientation in Somali context also the contribution will be testing environmental determinants (ED) as moderating variable.

For this investigation, the research problem is finding a link between Entrepreneurial Orientation and Environmental Determinants in association with firm performance. Under this framework, first, the investigation confirms a direct positive relationship between the five dimensions of EO (innovative, risk-taking characteristics, proactiveness, competitive aggressiveness and Autonomy)) with firm performance owned by Somali women entrepreneurs. Second, the study verifies direct association of Environment determinants (ED) with performance respectively. Third, the research broadens to confirm if there is a moderating impact of ED on the link between EO characteristics and firm performance. In other words, if a moderating role of ED exist with a) the association between innovativeness and business performance, b) the link between risk-taking and business performance, c) the link between proactiveness and business performance, d) the link between competitive aggressiveness and business performance and e) the link between Autonomy and business performance. The entire analysis shall take place under control conditions of entrepreneurial determinants (ED). Therefore, the primary purpose of this study is to test if entrepreneurial orientation within the context of Somali women entrepreneurs is associated with the performance.

**RESEARCH QUESTIONS**

This research attempts to answer the following main questions:
1. Does Somali women entrepreneurs adopt a strong Entrepreneurship Orientation?
2. Do Environmental determinants moderate the relationship between the entrepreneurship orientation and business performance?
3. Can degree of entrepreneurial orientation of women entrepreneurs lead to successful business?.
4. What is the relationship between Entrepreneurial orientation Dimensions and firm performance dimensions of women enterprises in Somalia?

**ENTREPRENEURIAL ORIENTATION**

Entrepreneurial orientation has been considered as one of the characteristics of entrepreneurial firms. Millers (1983) “an entrepreneurial firm is one that engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with ‘proactive’ innovations, beating competitors to the punch”. Descendant studies in the 1990’s have come to call the combination of these dimensions to entrepreneurial orientation. Lumpkin and Dess (1996) defined as entrepreneurial orientation as process, practice and decision making activity that lead to new entry.

Zara and Covin (1995) defined entrepreneurial orientation as potential means of refreshing and stimulating existing company, this is done through means of innovation , risk taking and pro activeness in competitive environment.

Different authors have adopted different definition so most uniform definition that currently is used refers entrepreneur orientation as organization’s strategic orientation that covers entrepreneur’s actions in decision making methods, process and practices. Previous studies regarded entrepreneurial orientation as vital component of firm’s performance, although most researchers found uniform findings then different conclusions and implications are reached.
because performance is result of inter related variables as well as large number of mediation variables are on hand. Entrepreneur orientation have multitude dimension and each one of them has found to have association with firms performance, so linkage is different in consideration of several factors (millers, 1983). It’s worth noting that entrepreneurial orientation ranged from conservative entrepreneurial firms that represent basic strategic position. Entrepreneurial orientation is combination of three dimension some times said five dimensions.

**DIMENSIONS OF ENTREPRENEURIAL ORIENTATION**

**INNOVATION**

Innovation is defined as propensity to promote new idea, experimentation and creation of process more over new way of doing business that firm catches earlier than competitor Wiklund (1988). Innovation is reached through creation and generation of idea, R&D is important source of innovation because it involves improving an existing product, develops new product and new methods of product creation as well equipment needed to achieve improved or new production process, although the importance of R&D can’t be skipped then firm needs to regard large outlay it incurs in R&D.

Some researchers argue that innovation depends on type of the product and service that company deploys to market. They believe that innovation is intrinsically attached to entrepreneurship so that entrepreneur can change product line as well as being technological leaderships (schillo, 2011).

However researchers that believe innovativeness is character of entrepreneur deemphasize role of R&D in the innovation rationality is that, when entrepreneur has inborn ability to change its product to gain market entry then it’s not necessary to incur large R&D expenditure that may offset any realized financial gain in long run, so R&D should be balanced in wise of cost and benefits equilibrium.

Innovation can’t be considered in isolation, innovation is influenced by firms resource whether it’s financial or none financial resource, number of studies highlighted that firms that are financial constrained encounter difficulties in pursuing innovation (Hafeezet al. 2012). Firms that embrace and manage innovation in a effective manner have superb performance than those have less innovative entrepreneur Hafeez (2012), however innovation is more or less correlated to firms performance.

**Proactive**

Pro activeness is defined as trait of entrepreneur to anticipate future business event around the product and technology as well market and consumer demand (schillo, 2011), it’s all about entrepreneur’s projections in future to exploit market opportunity and avoid threats. Pro activeness is one way that organization can become market leaders rather than flowers.

Earlier economists centered pro- activeness to their view of entrepreneur, they considered entrepreneur to someone who identifies market opportunities and pro-actively exploit these opportunities (Lumpkin and Dess, 1996).

According to Vankatraman (1989) pro-activeness is core ingredient of entrepreneur ship; he stated that pro-activeness is seeking new opportunities that are not restrained to current operation, so entrepreneurs are required to keep their eyes in horizon and to take benefits of upcoming opportunities along with affectively competing in current market.
Firm can become pro-active by: shaping the environment, introducing new product brands and process, as well as shortening product life cycle by eliminating declining stage products, penetrating flourishing markets and utilizing existing opportunities (Coulthard, 2007). Although previous studies demonstrated that pro-activeness is ability to pursue opportunities identified in the market, pro-activeness is not meant by being first in market or undertaking green field investment. It’s all about being attentive to the emerging opportunity in market place (Vankatraman, 1989).

Pro-activeness is important in world competition but does not hold same significance in different industries with different business stages; some authors argue that in franchises industry, pro-activeness is pervasive in startup stage but less important in established firm (Coulthard, 2007). Rationality is that, established firms with strong brand equity are not supposed to engage product changes and intensive market effort unless product is in decline stage or maturity stages and customer face less switching cost (Miller, 2011).

**Risk taking**

According to Coulthard (2007) risk taking is management decision to take large ventures at foremost, risk taking has been major character of effective entrepreneurs and managers, there is no single person who desires to experience hazardous business event, but real entrepreneurs and experienced managers are able to tackle intimidations in competitive environment and make decision considered a risky but business opportunity in their view. Entrepreneurs are naturally risk taking individuals according to their decisions to work themselves rather being employed; this also applies to companies and large firms that commit project that cost amount of resource with indefinite results (Madhouse et al., 2011). Thought previous studies expressed that risk takers are more successful than risk aversers then there is no way to inspire managers to blind risk calculations and commit projects that have clear loss results and will adversely affect firm performance and goodwill. Entrepreneurs should become calculated risk takers, and look for ways to mitigate and shift emerging risks (Schillo, 2011).

Entrepreneurs consider risk as part of life so they have deep awareness for the potential effects of the risk on employment opportunities and firm survival, entrepreneurs should develop viable exist strategies for any risk they decide to descend (Lee and Chio, 2003). However strategies are developed to minimize unfavorable outcome that may be realized from peril decisions taken, its pain full fault to evaluate risk in short run wise only but it must be taken into account potential impacts of taken risk in long run. Entrepreneurs need to identify whether risk will be within manageable limits (Coulthard, 2007).

People are culturally different for risk persuasiveness, anthropologists argue that risk taking or risk aversion is matter of culture and norm that people have a racially. Regardless culture and believes that entrepreneurs have, they need to balance extremes of, departing golden opportunities for fear of risk and taking risk with explicit unfavorable outcome.

**COMPETITIVE AGGRESSIVENESS**

Competitor aggression Refers ways that company deals with its competitor, it’s distinction between those shy from direct competition and those face competitors head to head competition Schillo (2011). Competitor aggressive entrepreneur actively seek susceptible side of competitor and if it’s found no mercy at all. Competitor aggressive is offensive behavior
that is aimed to overcome a competitor Lumpkin, and Dess (1996), competitor aggressiveness is about setting ambitious market share and striving to achieve it by means of price cutting and adding new features to the product (Venkatraman, 1989). Competitor aggression should not be mistaken to the proactive character of entrepreneur, there is a distinction between the two dimensions, proactive is response to the opportunity where competitor aggressive is response to threats (Lumpkin and Dess, 2001).

**Autonomy**

Autonomy refers independence of individuals to put forward idea and visions and to pass it through the completion Lumpkin and Dess (1996). Primary component of autonomy is face validity. It’s found that autonomy is more applicable to large organizations that have numerous personnel than small organization that has minimal number of employees (Schillo, 2011).

Autonomy is ability of entrepreneur to direct themselves through their conviction, autonomy is granted to teams and groups to bring new idea and vision, so entrepreneur have degree of freedom to make primary decisions that direct and guide business operation (Frank et al, n.d). Some authors believe that high performing firms encourage their employees to routinely present new ideas and suggestions, then these ideas are valued and embraced that creates to employees strong feelings of being part to the organization. Alternative result is realized from firms that have autocratic leadership.

**PERFORMANCE**

The impact of entrepreneurial orientation on business performance has been debated by researchers; it’s found that organizational performance is result of intertwine variable as well as performance is measured different dimension that entrepreneur behavior may not directly affect. According Lyon, Lumpkin and Dess (2000) research states that entrepreneurial orientation does influence firms’ performance; they suggested that entrepreneurial orientation positively effects financial performance. Most researchers measured financial performance by sells growth and cash flow. Both items are not easily found as most firms don’t discover to their financial statement to external researchers and even if it’s found it’s hard to confirm whether it reflects organization’s financial position.

Wiklund and Shepherd (2005) identified positive relationship between entrepreneurial orientation and organizational performance, Wiklund and Shepherd measured business performance by four dimensions those are: stable environment, high access of capital, dynamic environment and low access of capital. All four items showed that there is positive relationship between entrepreneurial orientation and organizational performance regardless differences of cultural context in the different organizations.

Some empirical researches indicate that relationship between entrepreneur orientation and organizational performance can be viewed as contingent rather than direct relation due to challenges met in the operationalization and measurement of entrepreneurship (Lyon, Lumpkin and Dess, 2000).

Some authors stated that Entrepreneur orientation is negatively related to organizational performance when innovation is combined to low capital investment because of obtaining access to capital has high cost and effect firms’ financial performance (Frank, n.d).
Conceptual model

![Conceptual Model Diagram]

Figure shows that there is direct relationship between entrepreneurial orientation and organizational performance. EO is measured by five dimensions those are innovation, proactiveness, risk taking, Autonomy and Competitor aggression.

**RESEARCH HYPOTHESIS**

**H1: Entrepreneurial orientation has a positive effect on firm performance**
- H1a: Innovativeness has a positive effect on firm performance.
- H1b: Proactiveness has a positive effect on firm performance.
- H1c: Risk-taking has a positive effect on firm performance.
- H1d: Autonomy has a positive effect on firm performance.
- H1e: Competitive aggressiveness has a positive effect on firm performance.

**H2: Environment Factors has a positive effect on Entrepreneurial Orientation.**
- H2a: Environmental hostility (EH) moderates the R/w entrepreneurial orientation and firm performance.
- H2b: Environmental Heterogeneity moderates the R/w entrepreneurial orientation and firm performance.
- H2c: Dynamism moderates the R/w entrepreneurial orientation and firm performance.

**RESEARCH Methodology**

This study conducted through cross-sectional survey design because it is a popular and common strategy in business and management. The study will conduct Women entrepreneurs in Mogadishu region. The target populations will 300 women entrepreneurship who involve Micro and Small enterprises. Mogadishu is the largest Region in Somalia and is selected the respondents from it considering appropriate for providing a focal point for the study of the factors influencing performance of Somali women entrepreneurs.

**Measurement of variables**

Entrepreneurial orientation was measured using a fifteen item, seven point interval scale type scale ranging from strong agreement with the question to strong disagreement adopted from (Knight 1997 & Wang 2008). Each dimension of entrepreneurial orientation, proactiveness,
innovativeness and risk taking, was described by three questions. Also competitive aggressiveness were measured using two items, autonomy were measured four items.

**Firm performance**

Performance was measured was measured by the perception and management employees of how they are satisfies with the achieved performance in terms to Sales growth rate, market share, operating profits, profit to sales ratio, market development, new product development. Respondent indicated on five point interval scale ranging from ‘very low’ to ‘very high’ satisfied; the extent to which they were satisfied with their company’s performance on these performance criteria.

**Environmental Determinants (MV)**

**Environmental Hostility:** A hostile environment creates threats to a firm’s mission, through increasing rivalry in the industry or depressing demand for a firm’s products (or services), thereby threatening the very survival of the firm. EH was measured using six items; five point scales ranging from strong agreement with the question to strong disagreement, this measurement was first proposed by Miller and Friesen (1982) and developed by Zahra (1991).

**Environmental Dynamism:** ED refers to the perceived insatiability of a firm’s market because of continuing changes. Opportunities emerge from the dynamism of an industry where social, political, technological, and economic changes bring about new developments that can enrich a firm’s niche. ED was measured by 3 items on five point scale ranging from strong agreement with the question to strong disagreement (Miller and Friesen, 1982; Zahra, 1991).

**Environmental Heterogeneity:** Opportunities also emerge from the heterogeneity of the environment, where developments in one market create new pockets of demand for a firm’s products in related areas. Heterogeneity indicates the existence of multiple segments, with varied characteristics and needs that are being served by the firm (Zahra, 1991).

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Investigating the On-Line Shopping Intentions of Malaysian Students

Abstract

Intention means the willingness of an individual to perform a certain action. The current study is an attempt to recognize the underlying factors that affect online shopping intention in Malaysia. Data for this study have been collected using a questionnaire. Out of 400 questionnaires that have been distributed, 375 are returned. For data analysis method this research uses Structural Equation Model (SEM). The research findings suggested that the three factors; ability, integrity, subjective norm, were statistically significant in influencing online shopping intention. However there is no significant in consumers’ intention towards online shopping based on benevolence.

Key words: Integrity, Ability, Benevolence, Subjective norm, compatibility

Introduction

Trust in online trades is still critical to the success of e-commerce. Earlier research pointed out the lack of online consumer trust was the main barrier of consumer participation in e-commerce (Jarvenpaa, Tractinsky, & Saarinen, 1999). Since consumers are reluctant to make a purchase from unfamiliar web vendors on account of worries, trust has become an important in business-to-customer (B2C) electronic commerce.

E-commerce enables consumers to purchase products and services online using Internet technologies and related transportation (Pavlou & Chai, 2002). However, there is still a need for closer examination on the online shopping buying behavior in specific countries (Malaysia). Online purchase intention is the strength of a consumer’s intentions to perform a specified purchasing behavior via Internet. Earlier research has discovered that intention toward online shopping is a significant predictor of making online purchases (Zendehdel, Paim, Bojei, & Osman, 2011). However, a little is known about consumers’ intention toward adopting the online shopping and the factors which influence their intention (Haque, Sadeghzadeh, & Khatibi, 2011). Further in order to successfully enable e-commerce, the factor of trust certainly plays a crucial role, as buyers and sellers typically do not see each other while transacting online, unlike in the offline world. Following the TPB, attitude and subjective norm are also incorporated as key predictors of online consumer behavior. The present research is carried out in order to explore and evaluating the factors influencing purchasing intention towards online shopping, particularly in Malaysia.

Literature Review

There are three types of beliefs in the TPB that affect three perceptual constructs: behavioral beliefs that influence attitudes, normative beliefs that affect subjective norm, and control.
beliefs that shape perceived behavioral control. In turn, these three perceptual constructs determine behavioral intentions. Subjective Norm. Beliefs arising from social pressure are termed normative beliefs (Ajzen, 1991). Subjective norm is the influence of a person’s normative beliefs that others approve or disapprove a particular behavior.

According to Meyer and Davis (1995) there are three factors that give influence on the formation of trust, that is, ability, benevolence, and integrity. Various researchers have investigated the characteristics of the trustee that contributes to trust development. Lim and Benbasat (2002) show that these three antecedents of trust (perception about the characteristics of trustee) significantly influence the formation of the trust. Ability is the skills, competencies, and perceived expertise of the trustee (e.g., Internet store). Benevolence is the degree to which an internet store (e.g., Internet merchant) is believed to want to do good to the trustor (e.g., consumer), aside from an insensitive profit motive. Integrity refers to the trustor’s perception that the trustee adheres to a set of values that the trustor finds acceptable. Additionally, the existing view of consumer trust in the e-commerce literature contends that trust has a direct positive effect on intention and behavior (Pavlou, 2003; Teo & Liu 2007). (McKnight, Choudhury, & Kaemar, 2002; Verhagen, Meents, & Tan, 2006). Hahn and Kim (2009) also confirmed the positive relationship between online trust and online purchase intention. On the other hand, Prior research supports that compatibility with online purchasing influences consumer’s intention toward online shopping (Chen and Tan, 2004, Lin, 2007, Taylor and Todd, 1995).

Research model (Figure 1) was adhered to observe the trust factor affecting online shopping which have demonstrated literature support. Therefore, based on our earlier discussion, we propose the following hypotheses:

H1: There is a positive relationship between integrity and intention toward online shopping.
H2: There is a positive relationship between

```
   Ability
   Benevolence
   Subjective norm
   Integrity
   Compatibility
```

Benevolence and intention toward online shopping.
H3: There is a positive relationship between ability and intention online shopping.
H4: There is a positive relationship between subjective norm and intention online shopping.
H5: There is a positive relationship between compatibility and intention online shopping.
Research method

Survey approach was chosen to gather information directly from students in universities located in the Klang valley. Cluster sampling method was used. Firstly, whole population (population of universities in klang valley) was separated into two clusters (public and private). Then, from the selected clusters the researcher chose four universities from each cluster through simple random sampling.

Frequency distribution profile of respondents showed that 60 percent of the respondents were female while 40 percent were male. The majority of the respondents (55.2 %) fall in the age range between 20 to 25 years of age. Respondents having a monthly income ranging from less than RM 2400 were the majority income group (72.3 %). From the ethnic point of view, Malays comprised 52.4%, followed by Chinese and Indians that composed 32.8% and 14.4% of the study sample respectively.

Analysis and Results

SEM (structural equation modeling), which includes measurement model and path analysis, is an efficient way to find the fundamental relationships between constructs and their underlying measurement suitability; and Amos software with maximum likelihood estimation was used to implement SEM. The actual results are stated as follows. Confirmatory factor analysis (CFA) was employed to test reliability and validity of the questionnaires after collecting the questionnaires. The loading factor values of each manifest variable were higher than 0.7 (the suggested threshold value is 0.6 (Bagozzi & Yi, 1988), demonstrating that internal consistency and convergent validity are good; Construct reliability and the Cronbach's a value of each construct were higher than 0.7, also the average variance extracted of each construct was greater than 0.5, indicating good reliability. For the overall assessment of the measurement, multiple fit indexes are reported in Table 1 from which we can see that the model was reasonably consistent with the data, with all the fit indexes better than the recommended values.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Model</th>
<th>Critical Value</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>RMSEA</td>
<td>0.045</td>
<td>≤0.08</td>
<td>Good</td>
</tr>
<tr>
<td>GFI</td>
<td>0.93</td>
<td>≥0.90</td>
<td>Good</td>
</tr>
<tr>
<td>AGFI</td>
<td>0.94</td>
<td>≥0.90</td>
<td>Good</td>
</tr>
<tr>
<td>CMIN/DF</td>
<td>1.97</td>
<td>≤2.00</td>
<td>Good</td>
</tr>
<tr>
<td>TLI</td>
<td>0.912</td>
<td>≥0.95</td>
<td>Good</td>
</tr>
<tr>
<td>CFI</td>
<td>0.910</td>
<td>≥0.95</td>
<td></td>
</tr>
</tbody>
</table>
Table 2. The Results of Hypothesis Test

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Independent</th>
<th>Dependent</th>
<th>Coefficient</th>
<th>(P-value)</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1</td>
<td>Ability</td>
<td>Intention</td>
<td>.246</td>
<td>(0.000)</td>
<td>Significant</td>
</tr>
<tr>
<td>H2</td>
<td>Integrity</td>
<td>Intention</td>
<td>.321</td>
<td>(0.000)</td>
<td>Significant</td>
</tr>
<tr>
<td>H3</td>
<td>benevolence</td>
<td>Intention</td>
<td>.012</td>
<td>(0.604)</td>
<td>Not significant</td>
</tr>
<tr>
<td>H4</td>
<td>Subjective</td>
<td>Intention</td>
<td>.231</td>
<td>(0.000)</td>
<td>Significant</td>
</tr>
<tr>
<td>H5</td>
<td>Compatibility</td>
<td>Intention</td>
<td>.356</td>
<td>(0.000)</td>
<td>Significant</td>
</tr>
</tbody>
</table>

**Discussion**

The findings confirm that ability, integrity, and subjective norms are the main determinants of intentions in Malaysia, explaining (60%) of online shopping. These findings are consistent with previous research (Verhagen et al., 2006; McKnight et al., 2003; Pavlou and Fygenson, 2006; Taylor and Todd).

Furthermore, our result showed that students’ opinion about the benevolence of the Internet vendor might not have an important effect on their trust and purchase intentions. These differences might happen due to variation in their expectations. Furthermore, students ‘benevolence perceptions of online shopping store are relatively intangible, resulting in the evaluation of the value received being much more subjective which leads to the criteria for evaluating online shopping stores that is less well-expressed.

**Implications**

Online shopping is increasing at a tremendous rate day by day. In this respect, our study reveals that Malaysian students have a tendency to continue shopping with online vendors which they trust. That will help online sellers or vendors to improve their performance by emphasizing on presenting their integrity and ability as this may positively encourage consumer purchasing behaviors.

Moreover, they should present better customer services and they should solve this means that online vendors should influence the functions as tools to promote the respective attribute, ability, integrity, and deliver a satisfying interaction so as to build customer trust. Internet shop should be aware of the process of online shopping including shipping the right product to the right place at the right time, efficient customer support services, error-free billing, and credit on returned items; vendors in Malaysia’s virtual stores should provide a rich in the web store environment, which lacks an actual look-and-feel of products, the customer should be enabled to view and experience competence, and the ability to provide the intended product as expected. Moreover, in terms of subjective norm they should build positive word of mouth to enhance the perception of friends and family members of current customers. In this respect, online shopping providers may use a positive word-of-mouth strategy to enhance the awareness of their services and promote their benefits.
Acknowledgments

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References


The Effect of Product Similarity and Comparative Product Attributes on Category Substitution

Abstract

The schema incongruity, context of assimilation vs. contrast, and self-construal frameworks are used to predict the effect of product similarity and comparative product attributes on category substitution. The experiment uses a 2 (similarity between the target product and the comparison product: relatively similar versus dissimilar) by 3 (comparative product attributes of the target product: common to the comparison product, distinct from the comparison product, and a combination of common and distinct attributes) between-subjects factorial design with 300 Thai undergraduate students. It finds that when the target product and the comparison product are relatively similar, ads showing a combination of common and distinct attributes of the target product generate more-favorable attitudes toward the ad and the new use and use intentions than do ads showing either common or distinct attributes. In contrast, when the two products are dissimilar, ads emphasizing distinct attributes of the target product induce more-favorable attitudes toward the ad and the new use and use intentions than do ads showing a combination of common and distinct attributes or showing attributes common to both products. Contributions and implications of the research are discussed.

Keywords: product similarity, schema incongruity, self-construal, category substitution, product substitution, substitution in use, usage expansion, comparative advertising, Thailand

Introduction

With the increased sophistication of modern consumers, more and more products are being developed for specific purposes. Manufacturers are continuously investing in researching and understanding consumer needs to improve their marketing effectiveness. With such an abundance of products in the market to serve every conceivable consumer need, manufacturers have to find innovative ways to increase sales and profits.

One way a manufacturer can increase sales and profits is to reposition the target product (i.e., the product being promoted) to serve new consumer needs that are not already served by the product. In this way, the manufacturer needs not incur additional development costs, which are usually quite substantial, but can just develop a new marketing campaign to target a new usage segment. This strategy also extends its product life cycle.

To increase the sales of brands with high awareness and penetration, it is necessary to increase usage by current consumers (Wilke, 1995). Substitution-in-use research indicates that most products can be used in various situations (Ratneshwar & Shocker, 1991;
The anticipated use of the product, the functions to be served, the application/consumption context, and the usage situation influence brand choice and substitutability (Srivastava, 1981).

Substitution-in-use research defines a product-market as a set of products judged to be substitutes within those usage situations which similar benefits are sought and the customers for whom such usages are relevant (Day, Shocker, & Srivastava, 1979). It has been shown that consumers are not rigid in their choices but will consider a set of products that can be used in a particular situation (Day et al., 1979; Srivastava, Alpert, & Shocker, 1984). For example, different people consume different beverages as breakfast drink, such as tea, coffee, Milo, Horlicks, fruit juice, cultured milk, and so forth. These beverages, despite being very different in nature, can all be consumed in the morning to satisfy different needs. Drugs made up of different chemicals but with similar therapeutic effects could be substitutes (Cocks & Virts, 1975).

When consumers consider new uses for old brands, three approaches might be taken. First, consumers may determine whether using the product would satisfy their needs (Barsalou, 1985). Second, they may evoke a product comparison by comparing the target brand with other products normally utilized in that situation (Pechmann & Ratneshwar, 1991). Finally, they may evoke a situation comparison by comparing the use of the target brand in the new situation to the use of the product in its normal usage situation (Belk, 1974).

Consumers usually do not attempt to associate a particular product with non-routine usage situations unless they are presented with such an association (Wansink & Ray, 1996). Usage expansion advertising refers to any advertising campaign that seeks to expand the use of a product or a product category by encouraging consumers to use it in a situation in which they do not regularly do (Wansink, 1994). Based on comparison, usage expansion advertising can associate the target product (for the new/different use) to the comparison product (i.e., the product being compared with) in common usage or common attributes while stressing the distinct attributes that differentiate the target product from the comparison product. According to past research, comparative ads increase brand comprehension because the use of product-attribute-based comparisons facilitates positioning a brand in relation to competitors, and their information format provides higher potential for learning and clearer, more-focused perceptions (Droge & Darmon, 1987; Wilkie & Farris, 1975).

Given the importance of encouraging consumers to use a product in various usage situations in order to increase sales, the objective of this research is to examine the effect of different comparative advertising strategies on product category substitution. It extends the conceptual framework that shows how usage expansion advertising affects attitudes toward the ad, attitudes toward the new use, and use intentions by varying the degrees of product similarity and types of comparative product attributes in the ad. Furthermore, this study examines Thai people’s category substitution, a phenomenon that has been studied primarily in Western cultures.

**LITERATURE REVIEW AND HYPOTHESES**

Ratneshwar and Shocker (1991) emphasized the theoretical aspect of product category structure and the relationship between usage context and substitution in use. The substitution-in-use approach focuses on the functional role of objects in consumption events defined by
usage contexts, which can be meaningfully described at the right level of abstraction in consumers’ cognitive process (Bransford, McCarrell, Franks, & Nitsch, 1977).

The usage contexts act as environmental constraints that help define consumers’ ends or goals and therefore limit the nature of the means (products) that can achieve those ends (Belk, 1975). Consumers’ category structure then is inferred from people’s judgments of product substitutability across usage contexts, and the similarity between two products is judged by their common usage and attributes. Ratneshwar and Shocker (1991) suggested that common usage, common attributes, and distinct attributes could be used to judge the similarity between two products.

Systematic research on the effectiveness of comparative advertising emerged in the 1970s (Prasad, 1976) and often addressed product substitution and usage contexts (Gorn & Weinberg, 1984; Lanseng & Sivertsen, 2011; Yoon, 2012). However, research (Belch, 1981; Gorn & Weinberg, 1984) did not find consistent effects of comparative advertising on consumers’ attitudes toward the brand and the product, as well as purchase intentions.

As a result, subsequent studies attempted to investigate the types of comparison in an ad and their effectiveness. One line of research (Willkie & Farris, 1975) indicated that distinct attributes should be stressed in the ad for a strong target product for differentiation, and common attributes should be stressed in the ad for a weak target product for association with the comparison product.

Advertising only attributes that are distinct or unique to a target product may be ineffective because the association with the comparison product is attenuated (Pechmann & Ratneshwar, 1991). According to another line of research, the similarity-based inference, if the target product and the comparison product are dissimilar, ads with common attributes should be used because consumers may rely on the attribute information that is congruent with the inference of similarity elicited by the comparison-product cue (Pechmann & Ratneshwar, 1991). Common features promote preference because similarity along shared attributes tends to enhance difference on other attributes (Chernev, 1997). On the contrary, when the target product and the comparison product are similar, distinct attributes should be used to differentiate a target product from the comparison product. This is because if consumers consider only the common attributes, there will be no differential advantages associated with the target product and hence few reasons to use it apart from variety seeking (Wansink, 1994). In particular, Wansink found that ads could change usage attitudes by featuring common attributes when the comparison product was dissimilar and stressing distinct attributes when the comparison product was similar to the target product.

If this conclusion is valid, it would render some consistent managerial implications. However, perceived similarity could have different degrees (Ratneshwar & Shocker, 1991), and as Medin, Goldstone, and Gentner (1993) argued, perceived similarity could be a complex and dynamic cognitive function and could be affected by a multitude of factors. The present study suggests that at least two streams of research are necessary for further discussion. The first is schema congruity in comparative ads (Mandler, 1982; Peracchio & Tybout, 1996), particularly the effect of moderate schema incongruity when comparative advertising is used. The second is self-construal in comparative advertising in a cultural context. General investigations into cross-cultural advertising have been many, but specific discussions about comparative advertising have been inadequate (Choi & Miracle, 2004; Shao, Bao, & Gray, 2004). This study focuses on self-construal, which is defined by Singelis
The Effect of Product Similarity and Comparative Product Attributes on Category Substitution

(1994) as a constellation of thoughts, feelings, and actions concerning the relationship of the self to others, and the self as distinct from others, as a key moderator in the process of product comparison in advertising contexts.

**Schema Congruity Framework**
The schema congruity framework provides foundation for understanding how people evaluate the new use of advertised products. Schemas are defined as organized patterns of expectations, beliefs, prototypes, and affects (Folkes & Kiesler, 1991) that guide perception, thought, and action (Mandler, 1982). As time goes by, consumers may develop a set of expectations about a product category. Arranged around the most typical category members, these expectations may include hypotheses about the usual values and importance weights of attributes and the variability across brands on those attributes (Sujan & Bettman, 1989). Schemas exist for product categories (Sujan, 1985), brands (Boush & Loken, 1991), and usage (Barsalou, 1983; Wansink & Ray, 1996).

According to Sujan and Bettman (1989), schemas have been shown to have a deep effect on new information processing. Assimilation and accommodation are two processes describing how individuals handle incongruent information (Rumelhart & Norman, 1972). Assimilation occurs when a new concept is merged into the present mental schema, whereas accommodation occurs when a new mental schema is constructed or when the present schema undergoes substantial changes to interpret a new concept. The process of assimilation to a generic schema may occur when new information is slightly to moderately different from the category schema. In contrast, the accommodation process should occur under large inconsistencies. The resolution is the creation of a subcategory or a subtype to accommodate the discrepant instances.

**Moderate Schema-Incongruity Effect**
Congruity may give rise to positive memory and attitudinal effects due to consumers’ preference for the norm and due to the matching up with their expectations (Kamins & Gupta, 1994; Sengupta, Goodstein, & Boninger, 1997). On the other hand, incongruity may also induce favorable memory and attitudinal effects because people process the information more carefully (Sujan, Bettman, & Sujan, 1986; Lee, 2000). It has been found that ads with incongruent information increase ad and brand attitudes both immediately and at a delay (Lee & Mason, 1999; Lee, 2000). Reconciling this contradiction, Mandler (1982) argued that moderate incongruity will lead to more-favorable responses compared to low or extreme incongruity. This is often referred to as the moderate schema-incongruity effect.

Meyer-Levy and Tybout (1989) confirmed that moderate schema incongruity enhanced product evaluation and led to more-favorable evaluation than did either low or extreme schema incongruity. This is because under moderate incongruity, the novelty of an object may be resolved without prompting a fundamental change in consumers’ existing cognitive structure. Highly favorable evaluation may occur because of the combination of novelty and ease of resolution. In contrast, according to Meyer-Levy and Tybout, schema congruity can occur when all attributes of a product are represented within the activated schema. This situation might result in only mild positive evaluation of the product due to the absence of novelty.

On the other hand, extreme schema incongruity is resolved by moving to the subordinate level with more cognitive elaboration. Extreme incongruity necessitates moving through multiple levels within the product category hierarchy (Meyers-Levy & Tybout, 1989). This
situation is likely to create negative evaluation because of difficulties in evaluation, even though product information may be deeply processed and remembered (Taylor, 1981). Extreme incongruity requires extra cognitive efforts of consumers to accept new products (Jhang, Grant, & Campbell, 2012).

Further empirical findings seem to support the effectiveness of moderate incongruity. For example, perceived humor, attitudes toward the ad and the brand, and purchase intentions were found among Singaporeans to be higher for the humorous ads containing moderate incongruity than for those containing extreme incongruity (Pornpitakpan & Tan, 2000). Other studies examined moderate schema incongruity in the context of brand familiarity (Dahlén & Lange, 2004), consumer expertise (Lanseng & Sivertsen, 2011), verbal-based versus image-based source of incongruity (Halkias & Kokkinaki, 2011), and so forth. These studies also affirmed the existence of the moderate schema-incongruity effect.

The above theories and findings suggest that comparative advertising for the target product be moderately differentiated from the comparison product. However, some other studies (e.g., Torn & Dahlén, 2008) found that brand attitudes and purchase intentions were actually not enhanced by incongruity when the comparison was in certain contexts. As Yoon’s (2012) review suggested, schema incongruity in comparative advertising still has many unexplored areas.

For comparative advertising, at least two key research perspectives can be distinguished. One is the effectiveness of comparative versus non-comparative advertising (Dröge & Darmon, 1987; Gorn & Weinberg, 1984), and the other is the target ad’s claims of parity with, superiority to, or a combination of both parity with and superiority to the comparison product (Gorn & Weinberg 1984; Pechmann & Ratneshwar, 1991; Prasad, 1976; Sujan & Bettman, 1989). The present research is based on the second perspective.

Superiority claims seem to induce positive effects. For instance, Pechmann and Ratneswar (1991) found that direct comparison with a comparison brand led to positive differentiation of the target brand. However, other studies (e.g. Miniard, Barone, Rose, & Manning, 2006) obtained discrepant findings: When consumers spontaneously activated the competitor by themselves, indirect comparison was as effective as direct comparison.

Comparative advertising is also based on varied degrees of similarity. The two consequences of perceived (dis)similarity that have been well documented are assimilation and contrast (Herr, Sherman, & Fazio, 1983). It should be noted that assimilation has a different definition in this field compared to assimilation in the schema congruity framework. In this field, assimilation is conceptualized as the positive correlation between a context stimulus and a target when similarity is high, whereas contrast is conceptualized as the negative correlation between a context stimulus and a target when similarity is low (Herr et al., 1983; Stapel, Koomen, & Velthuijsen, 1998).

Assimilation and contrast generally imply that consumers undergo two different cognitive processes, that is, to try to link two similar products with common attributes via assimilation and to distinguish between two dissimilar products with distinct attributes via contrast (Dato-on & Dahlstrom, 2003; Mussweiler, 2003). As a result, when the two products in a comparative ad are similar, assimilation effects would make consumers prefer common attributes. When the two products are dissimilar, however, contrast effects would make
consumers prefer distinct attributes. This prediction is contradictory to that of Wansink (1994) and discrepant with Mandler (1982).

To further test assimilation and contrast effects and comparative claims in comparative advertising, Bei, Chu, and Shen (2011) hypothesized that when two products are similar, parity ad claims will lead to better market acceptance of the target brand extensions due to assimilation, whereas when two products are dissimilar, superiority ad claims will lead to better market acceptance due to contrast. Their findings, nevertheless, supported the contrast effect but not the assimilation effect. As the study used only parity and superiority claims, Bei et al. suggested future research to investigate other claims (e.g., a combination of parity and superiority) and potential moderating/mediating factors apart from consumer knowledge, both of which are to be further discussed in the present study.

In the last decade, researchers have investigated moderation and mediation effects of consumers’ psychological characteristics on comparative advertising effectiveness, such as need for cognition (Chow & Luk, 2006; Polyorat & Alden, 2005), involvement (Soscia, Girolamo, & Busacca, 2010), commitment (Raju, Unnava, & Montgomery, 2008), information processing mode (Thompson & Hamilton, 2006), and product and brand familiarity (Dahlén & Lange, 2004; Suk & Yoon, 2009). Consumers’ cultural characteristics were also investigated, such as high versus low context of cultures (Shao et al., 2004) and self-construal (Banerjee, 2011; Choi & Miracle, 2004; Polyorat & Alden, 2005). However, high versus low context cultures were not found to have a significant influence on consumers’ attitudes toward the ad (Shao et al., 2004), while self-construal demonstrated contradictory influences (Choi & Miracle, 2004; Polyorat & Alden, 2005) as discussed next. Therefore, this study considers the effect of self-construal on attitudes toward the ad and use intentions of products in comparative advertising in a specific cultural context.

**Self-Construal and Comparative Advertising**

Markus and Kitayama (1991) asserted that a person’s self-construal could be classified as independent and interdependent. While independent self-construal is defined as being separate from social contexts and represented by expressing the self, interdependent self-construal is described as being connected with social contexts and represented by promoting others’ goals. Self-construal varies across individuals (Singelis, 1994) as well as national cultures: People in the West are generally independent, whereas those in the East are mostly interdependent (Gudykunst et al., 1996; Markus & Kitayama, 1991).

On one hand, previous studies seem to suggest that independent self-construal should relate to a preference for comparative advertising, whereas interdependent self-construal should be associated with a preference for non-comparative advertising. For instance, Grewal, Kavanoo, Fern, Costley, and Banes (1997) conducted a meta-analysis of the U.S. comparative advertising literature and found that comparative ads were more effective than non-comparative ones in generating favorable brand attitudes and purchase intentions. A cross-cultural research by Shao et al. (2004) also indicated that comparative advertising was more frequently used in cultures with independent self-construal such as the USA, the UK, and Canada than in cultures with interdependent self-construal.

On the other hand, in interdependent cultures, self-enhancement through comparison with others could be considered inappropriate (Markus & Kitayama, 1991). This is because interdependent Asians are supposed to be reluctant to cause self or others to be embarrassed of inferiority in a comparative setting in a relational social context (Gudykunst, 1998).
Choi and Miracle (2004) tested whether self-construal influenced the effectiveness of comparative advertising and found that independent (American) participants liked comparative ads more than did interdependent (Korean) participants. However, Americans also liked non-comparative ads more than did Koreans—a finding that could not be explained by the research construct per se. This discrepant finding was partly reconciled by a study of the U.S. and Thai people by Polyorat and Alden (2005), which measured self-construal and need for recognition of participants with self-report scales and tested whether these two variables would moderate the effect of comparative versus non-comparative ads on attitudes toward the brand and purchase intentions.

Unlike Choi and Miracle (2004), which assumed independent/interdependent self-construal was a continuum (Markus & Kitayama, 1991), Polyorat and Alden (2005) distinguished independence and interdependence as two coexistent, orthogonal measures of self-construal (Christopher, Norris, D’Souza, & Tiernan, 2012; Oyserman, Coon, & Kemmelmeier, 2002; Singelis, 1994). Polyorat and Alden found that across the two national samples, both need for cognition and self-construal moderated the effect of comparative advertising on attitudes toward the brand and purchase intentions. Specifically, the findings indicated that participants with high independence but low need for cognition actually preferred non-comparative ads to comparative ads, while participants with low independence and low need for cognition preferred comparative ads to non-comparative ads, a finding that contradicted many previous assumptions. Across low and high independence, participants with high need for cognition preferred comparative ads to non-comparative ads.

Another finding of Polyorat and Alden (2005) was that the effect of interdependent self-construal was not significant on comparative versus non-comparative advertising. However, this finding calls for further research. On one hand, researchers have confirmed Thai people’s low independence, high interdependence self-construal (Christopher, D’Souza, Dhaliwal, & Peraza, 2010; Christopher et al., 2012; Dejitthirat, 2004) by comparing Thai and American undergraduate students’ scores on Singelis’s (1994) self-construal scale. It was found that Thais were significantly more interdependent and less independent than were Americans. Other research (Neff, Pisitsungkagarn, & Hsieh, 2008) found that while Thais were significantly more interdependent than were Americans, no significant difference existed between Thais and Americans in their independent self-construal. On the other hand, Polyorat and Alden (2005) investigated comparative versus non-comparative ads but not product similarity and various types of comparison claims.

Interdependent self-construal means that a person establishes and maintains a connection to a broader social entity (Christopher et al., 2012; Stapel & Koomen, 2005), which could mean that reference to other people and objects is the de facto condition. Empirical findings confirm that Eastern people are more capable of recognizing and processing comparative information than are Western individuals (Leo, Bennett, & Hartel, 2005). That Asian countries often put legal restrictions on the use of direct comparative advertising (Choi & Miracle, 2004; Shao et al., 2004) may reflect the effectiveness of comparative advertising and its possible abuse in the region.

The attempt to link interdependent self-construal and brand choice is not new (Escala & Bettman, 2005). A person with interdependent self-construal is generally expected to maintain harmony and to be less inclined to challenge social norms (Markus & Kitayama,
1991). However, evidence has been insufficient to show how interdependent self-construal affects attitudes towards the brand and purchase intention in comparative advertising.

Perhaps a relatively similar research approach is by Lee and colleagues (Aaker & Lee, 2001; Lee, Aaker, & Gardner, 2000). Focusing on motivation and self-construal priming, their studies found that independent self-construal priming correlated with promotion of a positive possibility, while interdependent self-construal priming correlated with prevention of a negative possibility. The priming not only induced social-relational information about self but also changed cognitive procedures of information processing (Kuhnen & Oyserman, 2002).

Such findings can be compared to another growing body of literature that discusses the temporary salience of independent and interdependent self-construal (Kuhnen & Oyserman, 2002; Oyserman et al., 2002). Relying on this rationale, the present research speculates that it is also possible that interdependence-salient consumers expect negativity avoidance (Gardner, Gabriel, & Lee, 1999; Goncalo & Staw, 2006), while independence-salient consumers expect positivity promotion. In the present study, the rationale suggests that when the target and the comparison products are relatively similar, consumers could be temporarily reminded of the direct competition. Thus, interdependence self-construal becomes salient, and consumers would look for common attributes to avoid potential risks of making an inferior choice. When the two products are dissimilar, competition is not necessarily perceived as intense. Therefore, interdependence self-construal is not made salient, and consumers would look for distinct attributes to substantiate unique advantages of the target product. This prediction extends and reinforces the one derived from assimilation versus contrast effects.

Several streams of research findings discussed above can be summarized. On one hand, moderate schema incongruity tends to generate consumer responses that are more favorable than those induced by low or extreme incongruity. Furthermore, superiority claims lead to more-positive responses (Pechmann & Ratneswar, 1991). Thus, ads showing distinct (i.e., extra differential advantages) attributes should generally be expected to be preferable to those showing common attributes (i.e., no or low incongruity, thus lacking novelty according to Meyer-Levy & Tybout, 1989) or extremely incongruent attributes (Jhang et al., 2012; Meyers-Levy & Tybout, 1989). In other words, consumers tend to expect some distinct attributes in a comparative advertising setting.

On the other hand, research in assimilation and contrast as well as self-construal suggests that when the target and the comparison products are relatively similar, the assimilation effect and the negativity-avoidance effect should induce preference for common attributes. When the target and the comparison products are dissimilar, however, the contrast effect and the positivity-promotion effect should both evoke preference for distinct attributes of the target product.

Combining these streams of research, this study proposes the following hypotheses:

Hypothesis 1: For Thai people, when the target product and the comparison product are relatively similar, ads showing a combination of common and distinct attributes of the target product will generate more-favorable (1a) attitudes toward the ad, (1b) attitudes toward the new use, and (1c) use intentions than will ads showing either common or distinct attributes.

Hypothesis 2: For Thai people, when the target product and the comparison product are dissimilar, ads emphasizing distinct attributes of the target product will generate
more-favorable (2a) attitudes toward the ad, (2b) attitudes toward the new use, and (2c) use intentions than will ads showing a combination of common and distinct attributes or showing attributes common to both products.

Method

Research Design
The experiment used a 2 (similarity between the target product and the comparison product: relatively similar versus dissimilar) by 3 (product attributes of the target product: common to the comparison product, distinct from the comparison product, and a combination of common and distinct attributes) between-subjects factorial design. Common attributes represented parity claims, distinct attributes represented superiority claims, and a combination of common and distinct attributes represented both parity and superiority claims.

Experimental Stimuli
Based on pretests with 30 Thai undergraduate students, the target product selected was Haiter bleach, which was familiar to participants and was present in most participants’ houses. The bleach’s target use was to substitute either a liquid cleaner or a powdered cleaner to clean a sink.

To manipulate similarity between the target product and the comparison product, a liquid cleaner was used as a relatively similar product to compare because it was in the same product form (liquid) as the bleach while a powdered cleaner was used as a dissimilar product to compare because it was in a different product form (powder). To manipulate product attributes, the ad in the form of a television script contained either one of the following kinds of product attributes: the target product’s attributes that were common to the comparison product, the target product’s attributes that were distinct from the comparison product, and a combination of common and distinct attributes. Pretest results with 30 Thai undergraduate students showed that the manipulation of similarity between the target product and the comparison product and the manipulation of product attributes were successful as desired.

The ad transcript was divided into video and audio segments. The presenter in the ad began by stating that she had always used liquid (powdered) cleaner to clean a sink. Next, she emphasized that the target product was appropriate for the particular usage situation by telling about her experience in using Haiter instead of a regular cleaner to clean a sink. Two out of six ads emphasized that the target product had three attributes common to the comparison product; other two emphasized that the target product had three attributes distinct from the comparison product; the last two stated a combination of common and distinct attributes. Then, the presenter stressed that consumers should consider using the target product to clean a sink. Table 1 summarizes the key elements of the ads.

*****Put Table 1 here*****

Participants were asked to read the television commercial scripts and then took as much time as they needed to complete the questionnaire, which was adapted from that in Wansink (1994), translated into Thai by a professional translator, and verified for translation accuracy by another professional translator.
Sample
The sample consisted of 300 Thai undergraduate students (51.3% were male) in Bangkok. The age range was 17 to 25 ($M = 18.86$, $SD = 1.21$). Participants were randomly assigned to one of the six experimental groups.

Measures
All the measures described below were 7-point scale except where indicated. The attitudes toward the ad measure ($\alpha = .909$) was averaged from the items asking participants to indicate whether the ad was very bad/very good, very unbelievable/very believable, very boring/very interesting, very unattractive/very attractive, and dislike very much/like very much.

The attitudes toward the new use measure ($\alpha = .933$) was averaged from the items asking participants to indicate whether a particular usage expansion was very bad/very good, very unappealing/very appealing, very inappropriate/very appropriate, and very unreasonable/very reasonable. The use intentions measure asked participants to indicate whether their intention to use the target product was very low/very high.

The manipulation check for the similarity between the target product and the comparison product ($\alpha = .817$) consisted of two items asking participants to rate how similar the two products were overall and in cleaning sinks, respectively. As a manipulation check that the common attributes between the target product and the comparison product were perceived to be equal ($\alpha = .673$), participants in the common and a combination of common and distinct attributes conditions answered whether compared to liquid (powdered) cleaners in general, Haiter bleach was less or more on each of the three common attributes, with the middle score of 4 meaning equal. As a manipulation check that the distinct attributes between the target and the comparison products were perceived to be distinct ($\alpha = .748$), participants in the distinct and a combination of common and distinct attributes conditions answered whether compared to liquid (powdered) cleaners in general, Haiter bleach was less or more on each of the three distinct attributes.

In addition, participants answered how often they used the target product and the comparison product over the past one year. As potential covariates, price consciousness ($\alpha = .653$) was measured by four items taken from Wells and Tigert (1971) and risk taking ($\alpha = .614$) was measured by nine items taken from Raju (1980).

Results
Manipulation Checks
To determine whether the manipulation of similarity between the target product and the comparison product was effective, $t$-test was conducted with similarity between the two products (similar versus dissimilar) as the independent variable and perceived similarity as the dependent variable. The result indicated that the manipulation of similarity was effective--perceived similarity for the relatively similar product condition, $M = 3.86$, $SD = 1.54$, was significantly higher than that for the dissimilar product condition, $M = 3.08$, $SD = 1.16$, $t(298) = 4.93$, $p < .0001$.

As a manipulation check that the common attributes between the target product and the comparison product were perceived to be equal, one-sample $t$-test was conducted on the perceived superiority of the common attributes for the common attributes and the combination of common and distinct attributes conditions. The result showed successful manipulation of common attributes--the mean perceived superiority of the common attributes
was 3.91 (SD = 1.00), which was not significantly different from the middle score 4, \( t(199) = -1.251, \) n.s.

In the same manner, as a manipulation check that the distinct attributes between the target product and the comparison product were perceived to be superior, one-sample \( t \)-test was conducted on the perceived superiority of the distinct attributes for the distinct attributes and the combination of common and distinct attributes conditions. The result revealed successful manipulation of distinct attributes—the mean perceived superiority of the distinct attributes was 4.85 (SD = 1.10), which was significantly higher than the middle score 4, \( t(199) = 11.00, p < .0001. \)

**Checks for Potential Covariates**

Prior to hypothesis tests, two-way ANOVA (product attributes x similarity between the target product and the comparison product) was conducted on potential covariates, namely, price consciousness and risk taking. The results showed no significant main effects and interaction effects on the two variables, so covariates were not required for further analyses.

**Hypothesis Tests**

Two-way ANOVA (product attributes x similarity between the target product and the comparison product) was conducted on attitudes toward the ad, attitudes toward the new use, and use intentions to test the hypotheses, as shown in Table 2. According to Table 2, the main effect of similarity between the target product and the comparison product, the main effect of product attributes, and the interaction effect between these two factors were significant on all the three dependent variables. Figures 1 - 3 show the interaction pattern.

*****Put Table 2 and Figures 1 - 3 here*****

Follow-up tests showed that when the target product and the comparison product were similar, the following significant differences were found. First, the ad with a combination of common and distinct product attributes (\( M = 3.90, SD = 1.07 \)) generated more favorable attitudes toward the ad than did the ads with either common (\( M = 2.43, SD = 1.07, p < .001 \)) or distinct (\( M = 2.82, SD = 1.04, p < .001 \)) attributes. Second, the ad with a combination of common and distinct product attributes (\( M = 3.47, SD = 1.23 \)) induced better attitudes toward the new use than did the ads with either common (\( M = 2.44, SD = 1.29, p < .001 \)) or distinct (\( M = 2.71, SD = 1.21, p < .05 \)) attributes. Finally, the ad with a combination of common and distinct product attributes (\( M = 2.64, SD = 1.31 \)) elicited more-favorable use intentions than did the ads with either common (\( M = 1.74, SD = 1.08, p < .01 \)) or distinct (\( M = 1.66, SD = 1.10, p < .05 \)) attributes. These results fully supported Hypothesis 1, which states that when the target product and the comparison product are relatively similar, ads showing a combination of common and distinct attributes of the target product will generate more-favorable (1a) attitudes toward the ad, (1b) attitudes toward the new use, and (1c) use intentions than will ads showing either common or distinct attributes.

Follow-up tests revealed that when the target product and the comparison product were dissimilar, the following differences were observed. First, the ad with distinct attributes (\( M = 4.35, SD = 1.16 \)) created better attitudes toward the ad than did the ads portraying common (\( M = 3.26, SD = 0.80, p < .001 \)) or a combination of common and distinct (\( M = 3.28, SD = 1.22, p < .001 \)) attributes. Second, the ad with distinct attributes (\( M = 4.28, SD = 1.21 \)) elicited better attitudes toward the new use than did the ads containing common (\( M = 2.86, SD = 0.96, p < .01 \)) or a combination of common and distinct (\( M = 3.32, SD = 1.39, p < .001 \))
attributes. Finally, the ad with distinct attributes ($M = 3.50, SD = 1.67$) generated more favorable use intentions than did the ads with common ($M = 2.00, SD = 1.16, p < .001$) or a combination of common and distinct ($M = 1.80, SD = 1.16, p < .001$) attributes. These results fully supported Hypothesis 2, which states that when the target product and the comparison product are dissimilar, ads emphasizing distinct attributes of the target product will generate more-favorable (2a) attitudes toward the ad, (2b) attitudes toward the new use, and (2c) use intentions than will ads showing a combination of common and distinct attributes or showing attributes common to both products.

**Discussion**

This section summarizes the research design and findings, discusses the study’s limitations, suggests areas for future research, and elaborates its theoretical contributions and managerial implications.

**Summary of Research Findings**

The experiment uses a 2 (similarity between the target product and the comparison product: relatively similar versus dissimilar) by 3 (product attributes of the target product: common to the comparison product, distinct from the comparison product, and a combination of common and distinct attributes) between-subjects factorial design with 300 Thai undergraduate students. The results support both hypotheses. When the target product and the comparison product are relatively similar, ads showing a combination of common and distinct attributes of the target product generate more-favorable attitudes toward the ad and the new use and use intentions than do ads showing either common or distinct attributes. In contrast, when the two products are dissimilar, ads emphasizing distinct attributes of the target product induce more-favorable attitudes toward the ad and the new use and use intentions than do ads showing a combination of common and distinct attributes or showing attributes common to both products.

**Limitations of the Study and Suggestions for Future Research**

Limitations of the research are two. First, as bleach is a typical low-involvement, fast moving daily consumable that does not require prior expertise, generalization of the findings to other product categories must be done with caution. Second, similar to most consumer research, this study was based on undergraduate students.

Although participants demonstrate significantly different attitudes and use intentions for the tested product, future research should test other brands and product categories to verify the external validity of the findings. Moreover, mediators and moderators can be examined to better understand consumers’ psychology and behaviors with respect to comparative advertising and product similarity. Finally, future research may be conducted with other cultures with both independent and interdependent self-construal to test the generalizability of the findings in this study.

**Theoretical Contributions and Managerial Implications**

This research provides several theoretical contributions. First, it follows the suggestion of Bei et al. (2011) by adding a new type of comparative ad claims (i.e., a combination of common and distinct product attributes) and finds statistically significant results. Second, discrepant with previous assertions that common attributes should be stressed for dissimilar products and vice versa (Pechmann & Ratneshwar; 1991; Wansink, 1994), this study finds that distinct attributes are associated with positive attitudes and use intentions across similar and dissimilar products, a finding that is consistent with both the moderate schema-incongruity
effect and the superiority claims effect (Pechmann & Ratneswar, 1991). As argued by Yoon (2012), an optimal range of stimulation exists for potential successful outcome, which requires both recognition of novelty and ease of cognitive resolution.

Third, the findings are also compatible with the predictions of assimilation versus contrast effects. Last, the findings are in agreement with the propositions derived from self-construal. Self-construal may exert moderating (Banerjee, 2011; Polyorat & Alden, 2005) or mediating (Choi & Miracle, 2004) effects on comparative advertising. The finding that Thai participants prefer a combination of common and distinct attributes when the target and the comparison products are relatively similar could suggest the effect of interdependent self-construal in this cultural context.

The study renders several important managerial implications. First, when marketing in interdependent Eastern cultures and the products in comparison are relatively similar, marketers should position the target brand as both sharing commonality with and being distinct from the comparison product for new-usage or substitution-in-use promotions, brand extensions, and new-product launches. Particularly, consumers should be assured of the necessary common attributes. For example, when a new car brand from Europe is introduced into Asia and is compared with local competitors, it should emphasize both its engineering excellence (distinct attribute) as well as specially extended interior room (common attribute) for family and group use, which is much more prevalent in Asia than in Europe.

In real life, Red Bull’s slogan “Tastes like a coke, hits you like a bull” is a good combination of both common and distinct product attributes. In contrast, KFC’s early advertising slogan of “Finger lickin’ good” was considered a bad table manner by Asians and induced its failure in Hong Kong in the 1970s. When the company redesigned its ad with its global image (distinct attribute) and consumers’ local values (common attribute), it gradually became successful in Hong Kong and China.

Second, when the products in comparison are dissimilar, marketers should be cautious in emphasizing common attributes. Instead, they should try to enhance the product’s perceived advantages. This is because prospective consumers may expect differentiation for both novelty and ease of resolution and prefer only distinct attributes. In addition, current consumers may be confused when an undesirable linkage with other products or brands is suggested. For example, Kellogg’s attempt to impress Indian consumers by adding Indian cultural elements (such as yoga) into its ads was not effective because traditional Indian breakfast is too different from Western breakfast of cereal products. Furthermore, affluent Indian consumers who can afford Kellogg’s products and regard themselves as international may shift to other more distinct brands for self-identification and self-image.

Finally, interdependent self-construal may not necessarily be aversive to comparative advertising in a socio-cultural context that either discourages or legally restricts the use of comparative ads. Marketers should try to understand whether it is because consumers do not like comparison or actually the contrary. For example, China has put a legal clause on comparative advertising with other brands for about two decades, yet international market leaders such as Procter & Gamble have successfully reinforced consumers’ perceived novelty and memory by launching new brands and comparing with their own existing brands and products.
Table 1

*Descriptions of the Experimental Ads*

<table>
<thead>
<tr>
<th>Target brand situation</th>
<th>Usage</th>
<th>Comparison product</th>
<th>Comparative product attribute in the ad</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquid bleach (Haiter)</td>
<td>Washing a sink</td>
<td>Use the target brand to substitute a liquid cleaner</td>
<td>Convenient to use</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Use the target brand to substitute a powdered cleaner</td>
<td>Disinfects well</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Economical to use</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Convenient to use</td>
</tr>
</tbody>
</table>

Table 2

2-way ANOVA (Similarity x Product Attributes) Results

<table>
<thead>
<tr>
<th>Source</th>
<th>Source of Variation</th>
<th>df</th>
<th>F</th>
<th>Partial η²</th>
<th>F</th>
<th>Partial η²</th>
<th>F</th>
<th>Partial η²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Similarity between the target and the comparison products (S)</td>
<td>df</td>
<td>1</td>
<td>22.34***</td>
<td>.071</td>
<td>18.99***</td>
<td>.061</td>
<td>8.296**</td>
<td>.027</td>
</tr>
<tr>
<td>Product attributes (P)</td>
<td>df</td>
<td>2</td>
<td>16.19***</td>
<td>.099</td>
<td>14.27***</td>
<td>.089</td>
<td>7.903***</td>
<td>.051</td>
</tr>
<tr>
<td>S x P</td>
<td>df</td>
<td>2</td>
<td>26.20***</td>
<td>.151</td>
<td>12.98***</td>
<td>.081</td>
<td>28.44***</td>
<td>.162</td>
</tr>
</tbody>
</table>
The Effect of Product Similarity and Comparative Product Attributes on Category Substitution

<table>
<thead>
<tr>
<th>Error</th>
<th>29</th>
<th>(1.140)</th>
<th>(1.493)</th>
<th>(1.595)</th>
</tr>
</thead>
</table>

*Note.* Values enclosed in parentheses represent mean square errors.  
*p < .05.  **p < .01.  ***p < .001.  ****p < .0001.

**Figure 1**
Attitudes Toward the Ad by Similarity and Product Attributes

**Figure 2**
Attitudes Toward the New Use by Similarity and Product Attributes
The References cited in this paper have been omitted due to space considerations. Interested readers should contact the authors for a complete copy of the paper.
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Foreign Brand Origin Recognition Accuracy (BORA): A Study in Malaysia

Abstract

The focus of this paper is on the ability of young Malaysian consumers to recognize the origin country of foreign brands (BORA). A total of 15 foreign brand names were used. Analysis revealed BORA for USA brands recorded the highest score compared to brands from Europe and Singapore. On the whole the findings show that young Malaysian’s BORA score was relatively low. The results indicate that young Malaysian consumers are not able to correctly identify the brands’ country of origin. This mean that there is room for local entrepreneurs to exploit the opportunities in Malaysian market through branding strategy.

Introduction

A strong brand helps the firm to build an identity in marketplace (Aaker, 1996). Brand equity that includes brand awareness and image components is the focus of brand marketing (Keller, 1993). Yasin et al. (2007) highlighted that brand equity cannot be fully understood without carefully examining the sources of it. Researchers have found that brand’s country of origin plays as an important predictor of brand equity (e.g. Yasin et al., 2007). Brand’s country of origin has been accepted as the mainstream of research in the fields of international marketing and consumer behavior (Usunier, 2006).

However, recently, some researchers argue about the real-world relevancy of brand’s country of origin research in marketing (e.g. Roth & Diamantopoulos, 2010; Samiee, 2010). Therefore, a new construct, namely brand origin recognition accuracy (hereinafter called BORA), was proposed, conceptualized, measured and tested by Samiee et al. (2005). They argued that this stream of research is significant as brand’s country of origin plays an important role in determining brand’s image, which subsequently affects brand equity. This study seeks to test the concept of BORA in Malaysia context.

Literature review

Usunier (2006) highlighted that business researchers facing the challenges of academic credibility and real-world relevance, as explained by Samiee (2010) the overwhelming conclusion of COO research, where both industrial buyers and consumers are sensitive to the cue of COO and the country image influence their choice. This limit the value and contribution of COO research in international marketing (Samiee, 2010).

Samiee et al. (2005) pointed out the critical underlying assumption in COO research is consumers do in fact possess accurate information on brands’ countries of origins. Therefore, they introduced and tested the concept of BORA in USA, where “BORA involves a form of knowledge that consumers potentially have stored in memory and can retrieve as input when
forming brand-related judgments and making choices” (Samiee et al., 2005). They further proposed four possible scenarios pertaining to BORA, as shown below:

1. Consumers associate brands with their respective countries, and it is likely that accurate brand origin information is held in their memory;
2. Consumers might be entirely oblivious to brand origin, where brand origin information plays no role in consumer choice behavior;
3. Brand origin information may be merely but inaccurately perceived, and consumers used this in their evaluative process; and
4. Consumers associate a brand with variety origins, and this information is used in their purchase decision.

They found Americans only had modest knowledge level on brands’ countries of origins when tested on selected local and foreign brands. However, a study by Jin et al. (2006) in India found that most of the Indian consumers could recognize most of the brands’ countries origins correctly, and had good knowledge about the brands’ countries. A brand origin is apparent to consumers if consumers have high level of BORA. Subsequently, it is important to develop and reinforce this information in international marketing and global strategies (Samiee et al., 2005).

Paswan and Sharma (2004) found education, socio-economic class and international travel experience were positively associated with the accuracy of brand-origin country knowledge. Additionally, Samiee et al. (2005) found consumers’ socioeconomic status and age were found to have both direct and indirect (mediated by international experience) effects on BORA, while other antecedents such as gender, consumer ethnocentrism and international experience were found have direct effects on BORA. This study tried to determine consumers’ foreign BORA score on country and regional basis.

Methodology
The population of this study was young Malaysian, and those aged 16 to 30 years old were selected to be the sample of this study, as previous study categorized consumers in or within this age range as young consumers (e.g. Hensen, 2008; Goi, 2009). Furthermore, this group constitutes to almost 30% of total population in Malaysia (Euromonitor International, 2009). Data collection method was self-administered survey and sampling method was convenience sampling. A total of 350 questionnaires were distributed in Penang, Malaysia. Penang was chosen as the focus of this study as the oldest state in Malaysia with a flourishing ICT sector, Penang can be the Silicon Valley of Malaysia. Penang would be the perfect spot for Malaysia’s electronics and computer components hub (The Star, 2007). Besides, amongst 31 other cities in the world, the newly released KPMG professional service report listed as Penang as the only Malaysian city that can challenge existing outsourcing hubs in India or China principally due to our superior human resources and talents (Penang State Government Official Portal, 2009).

A questionnaire was designed to collect relevant data. First part of the questionnaire was designed to collect socio-demographic background information likes age, gender, ethnicity and education. Second part was designed to measure consumers’ foreign BORA, by following the guidelines that given by Samiee et al. (2005). Respondents were presented a matrix, with a total of 15 foreign brand names, listed down the rows and columns headed with country name, with countries listed in alphabetical order (Samiee et al., 2005). These 15
brands represented six product categories, including clothing, footwear, healthcare, packaged food, cosmetics and toiletries, and electrical appliances.

A total of 15 brands, as presented in Table 1, were identified from market brands’ list that available from Global Market Information Databases (accessed from www.portal.euromonitor.com/Portal/ResultsList.aspx). There are five brands each from the US and European countries, and four Singaporean brands. These countries were selected as they were the top ten trading partners of Malaysia (Department of Statistics Malaysia, 2010). There are only four Singaporean brands, as there are fewer brands from Singapore as compared with Europe countries and the US that available in the brand lists. Besides, one brand (Panasonic) and one country (Malaysia) was used as foil to test the possibility of guessing, while the accurate brands’ countries of origin were not available. “Not listed” and “Don’t know” were also included as additional response options (Samiee et al., 2005). BORA score across respondents ranged from 0 to 100%, where knowledgeable respondents with perfect recognition of all the given brands and received a perfect 100% score. Inversely, respondents who are entirely clueless scored zero (Samiee et al., 2005).

Table 1 Selected brands

<table>
<thead>
<tr>
<th>No.</th>
<th>Brands and its’ country of origin</th>
<th>US</th>
<th>Europe countries</th>
<th>Singapore</th>
<th>Japan (Not listed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Avon</td>
<td></td>
<td>Bata</td>
<td>77th Street</td>
<td>Panasonic</td>
</tr>
<tr>
<td>2</td>
<td>Esprit</td>
<td></td>
<td>Cadbury</td>
<td></td>
<td>F&amp;N</td>
</tr>
<tr>
<td>3</td>
<td>Nike</td>
<td></td>
<td>Hacks</td>
<td></td>
<td>Tiger Balm</td>
</tr>
<tr>
<td>4</td>
<td>Nutrilite</td>
<td></td>
<td>Lux</td>
<td></td>
<td>Yeo’s</td>
</tr>
<tr>
<td>5</td>
<td>Pringles</td>
<td></td>
<td>Mango</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Analysis and findings

A total of 350 questionnaires were distributed, and the usable responses was 318 questionnaires, which is 90.9%. The respondents’ socio-demographic profile is presented in Table 2. Most of the respondents are between 21-25 years old, which is 211 respondents or 66.4%, are female (59.1%), are Chinese (39%) and are bachelor’s degree holder, which is 155 or 49.1% respondents.

Table 2 Sample profile

<table>
<thead>
<tr>
<th>Socio-demographic</th>
<th>Categories</th>
<th>Frequency (n=318)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>16-20</td>
<td>58</td>
<td>18.2</td>
</tr>
<tr>
<td></td>
<td>21-25</td>
<td>211</td>
<td>66.4</td>
</tr>
<tr>
<td></td>
<td>26-30</td>
<td>49</td>
<td>15.4</td>
</tr>
<tr>
<td>Gender</td>
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<td>130</td>
<td>40.9</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>188</td>
<td>59.1</td>
</tr>
<tr>
<td>Ethnic</td>
<td>Malay</td>
<td>103</td>
<td>32.4</td>
</tr>
<tr>
<td></td>
<td>Chinese</td>
<td>124</td>
<td>39.0</td>
</tr>
<tr>
<td></td>
<td>Indian</td>
<td>91</td>
<td>28.6</td>
</tr>
<tr>
<td>Education</td>
<td>SPM/MCE</td>
<td>47</td>
<td>14.8</td>
</tr>
<tr>
<td></td>
<td>STPM/HSC</td>
<td>19</td>
<td>6.0</td>
</tr>
<tr>
<td></td>
<td>Diploma</td>
<td>35</td>
<td>11.0</td>
</tr>
<tr>
<td></td>
<td>Bachelor’s degree</td>
<td>155</td>
<td>49.1</td>
</tr>
</tbody>
</table>
Next, the table presented the association between brands and countries of origin. Respondents were able to recognize brands from USA better than brands from Europe countries and Singapore. The BORA scores for USA brands ranged from 48.4% to 13.2%, ranged from 27% to 6% for European brands, and ranged from 11.6% to 4.1% for Singaporean brands. However, they tended to perceive Avon (24.2%) from USA; Hacks (25.8%), Lux (27.4%) and Bata (38.8%) from UK, Netherlands, and Czech Republic, accordingly; and, Tiger Balm (31.4%), Yeo’s (58.8%) and F&N (48.4%) from Singapore as Malaysian brands. Besides, Panasonic from Japan, that used to spot the possibility of guessing, where the brand’s country of origin is not among the available options. Most of the respondents can recognize Panasonic and answered “Not listed”, and the BORA score is 25.5%.

### Table 3  
Brand origin recognition accuracy matrix

<table>
<thead>
<tr>
<th>Brand</th>
<th>Europe</th>
<th>Singapore</th>
<th>USA</th>
<th>Not listed</th>
<th>Malaysia</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cadbury</td>
<td>27.0</td>
<td>4.1</td>
<td>14.5</td>
<td>5.3</td>
<td>12.9</td>
<td>36.2</td>
</tr>
<tr>
<td>Hacks</td>
<td>14.2</td>
<td>4.4</td>
<td>5.0</td>
<td>1.6</td>
<td>25.8</td>
<td>49.1</td>
</tr>
<tr>
<td>Lux</td>
<td>13.8</td>
<td>4.7</td>
<td>8.5</td>
<td>4.1</td>
<td>27.4</td>
<td>41.5</td>
</tr>
<tr>
<td>Mango</td>
<td>13.5</td>
<td>3.5</td>
<td>10.1</td>
<td>1.3</td>
<td>10.1</td>
<td>61.6</td>
</tr>
<tr>
<td>Bata</td>
<td>6.0</td>
<td>6.6</td>
<td>3.8</td>
<td>4.7</td>
<td>58.8</td>
<td>20.1</td>
</tr>
<tr>
<td>Tiger Balm</td>
<td>6.0</td>
<td>11.6</td>
<td>1.3</td>
<td>2.5</td>
<td>31.4</td>
<td>47.2</td>
</tr>
<tr>
<td>Yeo’s</td>
<td>4.7</td>
<td>10.7</td>
<td>1.9</td>
<td>2.5</td>
<td>58.8</td>
<td>21.4</td>
</tr>
<tr>
<td>F&amp;N</td>
<td>8.2</td>
<td>7.9</td>
<td>8.5</td>
<td>2.8</td>
<td>48.4</td>
<td>24.2</td>
</tr>
<tr>
<td>77th Street</td>
<td>4.1</td>
<td>4.1</td>
<td>5.0</td>
<td>2.2</td>
<td>5.7</td>
<td>78.9</td>
</tr>
<tr>
<td>Nike</td>
<td>12.6</td>
<td>4.7</td>
<td>48.4</td>
<td>4.1</td>
<td>5.0</td>
<td>25.2</td>
</tr>
<tr>
<td>Esprit</td>
<td>7.2</td>
<td>4.1</td>
<td>31.4</td>
<td>6.9</td>
<td>3.1</td>
<td>47.2</td>
</tr>
<tr>
<td>Pringles</td>
<td>11.0</td>
<td>6.0</td>
<td>21.4</td>
<td>4.1</td>
<td>13.8</td>
<td>43.7</td>
</tr>
<tr>
<td>Avon</td>
<td>7.9</td>
<td>5.7</td>
<td>14.8</td>
<td>2.2</td>
<td>24.2</td>
<td>45.3</td>
</tr>
<tr>
<td>Nutrilite</td>
<td>6.9</td>
<td>7.9</td>
<td>13.2</td>
<td>2.8</td>
<td>12.3</td>
<td>55.9</td>
</tr>
<tr>
<td>Panasonic</td>
<td>3.8</td>
<td>8.5</td>
<td>10.4</td>
<td>25.5</td>
<td>21.4</td>
<td>30.5</td>
</tr>
</tbody>
</table>

Subsequently, Brand Origin Recognition Accuracy (BORA) scores, namely Foreign BORA score, USA BORA score, Europe BORA score and Singapore BORA score, were calculated and presented in Table 4. BORA score ranged from zero to 100%. There are two steps in counting BORA score.

**Step 1- Count the number of correct BORA (correct Foreign BORA, correct Europe BORA and correct US BORA)**

**Step 2- Calculate BORA score**

a. Foreign BORA score = (Number of correct Foreign BORA /14) x 100%

b. USA BORA score = (Number of correct US BORA/5) x 100%

c. Europe BORA score = (Number of correct Europe BORA/5) x 100%

d. Singapore BORA score = (Number of correct Singapore BORA/4) x 100%

### Table 4  
Mean and standard deviation of BORA score
The mean value of Foreign BORA score was 18.82%, and the standard deviation was 15.03. Among Foreign BORA score, respondents scored USA BORA score the highest, followed by Europe BORA score and Singapore BORA score, where USA BORA score is 25.85% while Europe BORA score and Singapore BORA score are 14.91% and 8.57%, respectively.

Discussion and implications

Most of the young Malaysian consumers tend to associate Bata, an anglicized (Malay sounding) foreign brand from the Czech Republic, with Malaysia as the brand’s country of origin. Samiee et al. (2005) pointed out that BORA score may reflect the possibility of guessing based on language associations, while BORA may simply reflect respondents; sensitivity to surface-level language characteristics and their tendency to associate brand names to countries on that basis. Therefore, marketers for a brand with unfavorable country of origin image are encouraged having a brand name that can associate their brand with a favorable country of origin.

Young Malaysian’s BORA score was relatively low, which contradictory with previous study that found most Indian consumers can recognize brand’s country of origin accurately (Jin et al., 2006). This can be explained by the samples of studies. The samples of this study are young Malaysians aged 16 to 30 years old, mostly are students with lower income and purchasing power. Thus they might more concern about value for money in their purchase decision, while brand’s country of origin information has limited effect. Moreover, the sample of the study by Jin et al. (2006) was postgraduate students, where higher educated consumers were found to have higher BORA score.

Indeed, respondents showed highest USA BORA score, as compared with Europe BORA score and Singapore BORA score. USA brands performed well in their branding and marketing strategy, where based on Business Week’s annual ranking of the 100 Best Global Brands 2009; eight brands of top ten brands are from USA (Business Week, 2010). In addition, two of USA brands, namely Nike (ranked 26) and Avon (ranked 67), that selected in this study were among the 100 Best Global Brands 2009 (Business Week, 2010). So this might inflate USA BORA score.

However, high recognition towards brands from certain countries does not automatically imply that consumers prefer the brands from those countries, and vice versa. If the country image is unfavorable or even the unfavorable product category-COO association will bring negative outcome to brands from these countries, if consumers have higher awareness about the brands originated from those countries. Market practitioners should take this into account in designing marketing strategy and marketing communication.

Furthermore, the effect of localization also plays a determinant role in consumer BORA score, where the association between brand and its origin country becomes weaker along with the time and investment in host country (Jin et al., 2006). For instance, most of the
respondents perceived Bata, F&N, Hacks and Avon, that originated from Czech Republic, Singapore, the UK and the US respectively, as Malaysia brands. For example, Bata enter Malaysian market in 1930 and established its factory in Klang, Malaysia (Bata, 2010). F&N opened its first plant in Petaling Jaya, Malaysia in 1959, and driven to be the leading dairy and food marketer in Malaysia (Fraser & Neave, 2010)

In sum, we can conclude that linguistic played an important role in helping consumers recognize brand’s country of origin. Without the linguistics, a brand is merely a symbol without a name or sound, where subsequently brand differentiation communication cannot be achieved and ultimately result in failure of consumers to recognize brand (Harun, 2009).

**Contributions, limitations and recommendations**

This study contribute to the literature of BORA by investigating foreign BORA based on brand’s country of origin, where are US BORA, Europe BORA and Singapore BORA, unlike previous study that focus on foreign BORA in general. Consumers displayed different level of ability in recognizing brands from different countries.

The limitation also comes from the selection of brands in measuring respondents’ BORA scores, where the brands might not appropriate enough to represent brands from different origin countries in measuring young Malaysians’ brand’s country of origin knowledge. Future researchers are encouraged to employ targeted respondents in the brand selection process in selecting brands that covered different consumers’ brand familiarity. Next, as this study employed both anglicized (Malay sounding) foreign brand names and English sounding foreign brands. Nonetheless, future researchers are recommended to standardize the use of brand name, in terms of language. It is believed that this approach will eliminate or reduce the possibility respondents associate a brand with the cue of language.

**References**


Leader-Member Exchange vs. Team-Member Exchange: Which One is More Important for Employees’ Creativity?

ABSTRACT

Creating conducive working relationship among employees in the workplace is very crucial for the organization in order to maximize the creativity potential of their employees. There are two dimensions of working relationship; Leader-member exchange (LMX), and Team-member exchange (TMX). Which exchange is more influential to the level of creativity is still a matter of empirical investigation. This paper empirically investigated this issue based on data from four private hospitals in Malaysia. A questionnaire was distributed to a total of 502 employees from various departments, involving leaders and subordinates. The findings show that majority of the respondents were considered as creative. Majority of the respondents also perceived that they have a high quality of LMX and TMX. Correlation analysis shows that both LMX and TMX are positively and significantly correlated with the level of creativity. However, the correlation coefficient between TMX and creativity is slightly higher than the coefficient between LMX and creativity. In contrast, results from multiple regression shows that only TMX is significant. LMX, even though it’s positively related to creativity, is not statistically significant. Findings from this study recommend the importance of TMX on top of LMX as an element for creativity activities in an organization.

Keywords: Leader-member exchange; Team-member exchange; Creativity; Working relationship; Healthcare services

Introduction

Many empirical studies have provided proof that creativity is a key component strategy to produce positive outcomes. Therefore, creativity should be embedded in every employee within an organization, as creativity is a seed and a necessity for innovation. With this regard, determining the level of creativity, and identifying factors that could influence the level of creativity in an organization is very crucial if the organization wants to remain competitive in this globalization era. The importance of examining employees’ creativity within their relevant social settings had been well documented by Amabile (1996).

In the organization, employee creativity has been regarded as the building block for the innovation which could enhances organization’s adaptability and growth. Normally, the creativity of individual employee is often exhibited in a team context either through leader-member relationship or team-member relationship. However, which relationship is more influential is still a matter of empirical investigation.
Conducting research on creativity and factors that could influence its development is critical as it could help organizations to find ways to cultivate creativity conduct among their employees. Many scholars agree that to increase innovative performance in work setting, organizations need both a creativity-friendly environment, as well as employees with high level of creative potential.

This paper intends to contribute further to this issue by empirically investigating the impact of working relationships among the employee on their level of creativity. The main objective of this paper is to investigate how the relationship employees maintain with their immediate superior and with their work group influence their creativity. Different from previous studies, the scope of this study is in the healthcare services. This industry was chosen based on the fact that healthcare services require employees with high level of organizational creativity. In this paper, two dimensions of working relationship examined; the relationship between employee with their leaders (Leader-member exchange, LMX), and the relation between employee with their colleague (Team-member exchange, TMX). Meanwhile, for creativity, two fundamental aspects of creativity are captured: novelty and utility. It is predicted that higher intensity of working relationship leads to higher level of creativity among employees.

Leader-member exchange (LMX) is a working relationship that is characterized by the physical or mental effort, material resources, information and emotional support exchanged between the leader and the member (Liden, et al., 1997). LMX quality refers to the quality of the interpersonal relationship between an employee and his or her superior (Graen & Uhl-Bein, 1995). The quality LMX is determined by the amount of physical or mental effort, material resources, information and social support exchanged between the superior and the subordinate (Liden et al., 2000). High quality of LMX portrays that the subordinates interact frequently with their superiors and have their support, confidence, encouragement and consideration. Thus, they take on added duties and give extra effort to achieve work group goals that beyond contractual or transactional expectations (Sparrowe & Liden, 1997). On the other hand, low quality of LMX relationship shows a relationship that is limited to the relationship specified in the employment contract, where there are lack of trust, and support between supervisor and subordinates, in addition to poor allocation of rewards from the superior.

The relationship between team members (TMX) also plays an important role in individual employee creativity. In general, TMX is defined as the quality of interpersonal relationship between individual employee and his/her colleagues in the team (Seers, 1989). This concept refers to the employee’s perception about the relationship with their colleagues in the same work group as a whole (Maria & Mariano, 2011). Seers (1989) and Seers et al. (1995) argued that TMX can influence the satisfaction and work performance of the work groups. In this respect, Rogers (1954) suggested that the cohesion existing in the group determines the extent to which individual feel comfortable to come out with new ideas without fear of their colleagues.

**Literature Review**

Creativity has been defined in numerous ways. Most researchers studying creativity in organizations adopted a definition that focuses on the product or idea. Based on this definition, a person, process or situation is considered as creative if they have generated a product that can be classed as such (McKinnon, 1978). In the organization, creativity can also lead to the development of novel and valuable products, useful new ideas, new and improved services or process by which individuals working together in a complex social environment.
system (Woodman et al., 1993). With this regard, creativity is defined as the generation of novel and useful ideas; ideas or products that are useful to solve problems, meet the demands of a particular situation or achieve some recognizable goal (Amabile, 1988). This definition implies that creativity must be directly relevant to the organization’s objectives, whether in the short or long term (Cummings & Oldham, 1997).

Creativity is a critical competency for organizations since creativity is directly linked to innovation (Shalley & Perry-Smith, 2008). Creative ideas will provide a basis for new innovations, and for it to be successfully implemented. In other words, creativity is an important component for facilitating organizational innovation that vital for long term organizational success and survival (Kanter, 1983). Therefore, leaders of the organization are expected to play a significant role in promoting creativity at work (Tierney, 2008). This is because leaders are capable to develop different types of relationships with each individual employee within their department or unit (Graen & Scandura, 1987; Bauer & Green, 1996).

Study on the relationship between interpersonal relationship and creativity is still at an early stage. However, few studies have provided support for a possible relationship between LMX and innovative behavior. For instance, Scott & Bruce (1994) found that high quality relationship between the leader and the subordinate positively influences the subordinates’ innovative behavior. The study integrated a number of previous researches on innovation in order to develop a model of individual innovative behavior. They hypothesized that factors such as leadership, individual problem-solving style and work group relationship will affect individual innovative behavior directly or indirectly through their influence on perceptions of the climate for innovation. The study used structural equation model to test the moderating effect of task characteristics on innovation. The result of the study showed that the factors used in the model explained approximately 37% of the variance in innovation behavior. They also found that task type moderated the relationship between leader and innovative behavior. Atwater & Carmeli (2009) examined how leaders create the impetus for creativity at work. The study used 193 employees occupying a variety of jobs in an Israeli organization as a sample. They assessed the employees’ perception on the quality of their relationship with their leader based on their level of energy, and their creative work involvement. Findings from the study showed that LMX is positively related to employees' energy, which in turn related to high intensity of involvement in creative work.

Wen Pan et al. (2012) examined the mechanisms through which leader–member exchange (LMX) influences employee creativity. In their study, data were obtained from 367 leader–follower dyads from three manufacturing companies in the People's Republic of China. The results of the study revealed that motivation-oriented, psychological empowerment and social exchange-oriented, fully mediate the relationship between LMX and employee creativity. In addition, they also found that work-unit structure moderated the indirect effect of LMX on creativity through psychological empowerment.

Liao et al. (2010) found that TMX has indirect effects on employee creativity via self-efficacy. The study used a model that was based on social cognitive theory to explain how and when the quality of social exchange relationships with a supervisor and fellow team members affect individual creativity in work teams. Using longitudinal, multisource data of 828 employees from 116 teams, the researchers found LMX and TMX have indirect effects on employee creativity via self-efficacy. They also found that LMX reduced LMX quality’s direct effect on self-efficacy and indirect effect on creativity, while TMX increased TMX quality’s direct effect on self-efficacy and indirect effect on creativity.
In conclusion, the level of employees’ creativity depends on the quality of interpersonal relationship; LMX and TMX. However, which exchange is more influential to creativity is still a matter of empirical investigation. This study intends to provide some answers for this issue.

Methodology

Scope of the Study
The study was conducted on employees from four private hospitals in Klang valley, Malaysia. All selected private hospitals are under KPJ Group of Hospital; the leading private healthcare provider in Malaysia. The selected hospitals are KPJ Damansara Specialist Hospital, KPJ Ampang Puteri Specialist Hospital, KPJ Tawakkal Specialist Hospital and KPJ Kajang Specialist Hospital. Since the hospitals are under the same group of company, they share a same vision and mission, in which creative ideas is fundamental for achieving continuous improvement, with the ultimate objective is for a total quality. Currently, there are 2,265 employees in the four above-mentioned KPJ private hospitals. A total of 600 questionnaires were distributed to the randomly selected samples. Out of this, 167 are leaders and 433 are subordinates. The classification of leader and subordinate is as followed:

i) Leaders consist of Heads of Services (HOS), supervisors and immediate superiors. HOS are the “right hand” of Chief Executive Officer (CEO), whom should be always ready with creative problem-solving as to ensure administration and operational issues are handled efficiently. Officers and supervisors are viewed as second liners to HOS. They are responsible for a bigger scope of work and responsibilities, and will take charge of overall departmental activities and issues in the absence of HOS.

ii) Subordinates consist of ordinary employees from various departments such as Pharmacy, Clinical Oncology, Administration, Finance, Nursing and many others. Nursing is the biggest division as the hospitals are dominated by nursing staff of various categories; Unit Manager, Trained Nurses, Care Assistants and General Workers. This study, however, did not cover general workers. On top of that, employees who served for less than a year within the hospitals were excluded from this study. This is to ensure their relationship with their superior and team members are well established.

Sample
From the total number of distributed questionnaire, we managed to get completed responses from 502 respondents, which is about 83.7% respond rate. Out of this, 94 are leaders, and 408 are subordinates. Even though, the total number of returned questionnaires falls short from what has been targeted, the number of returned questionnaires is statistically big enough to describe the total population being studied and for further analysis. Upon the approval of the CEO of the hospitals, the questionnaires were distributed through the Human Resource Department of each hospital to the selected respondents. The selected respondents were chosen using systematic random sampling. In the data collection process, the respondents have been given a week to respond and to return the questionnaire. To avoid low response, follow-up calls were done.

Instrument
The questionnaire used in this study clearly stated the research title, research’s background, the purpose of the research, confidentiality statement as well as the benefits that may be gained from the study. Respondents are assured that all information gathered from the survey
is private and confidential, and strictly used for research purposes. A survey questionnaire
consists of 46 questions plus 15 demographic variables were administered with collaboration
from Human Resource Managers of the four private hospitals studied. The questionnaire was
based on the study by Maria & Mariano (2012) and Lee et al. (2012). Few modifications were
made to the original questionnaire to suit the organization and local setting. In general, the
questionnaire consisted of four sections; Socio Demography, Creativity Measure, Leader-
Member Exchange (LMX) Measure, and Team-Member Exchange (TMX) Measure.
In measuring creativity, a multi-item scale based on the work of Ettlie & O’Keefee (1982),
Cummings & Oldham (1997), Tierney et al. (1999), and Lee et al. (2012) were adopted,
which captured two fundamental aspects of creativity; novelty and utility. A seven-point
Likert type scale was used, in which the employees were requested to express their level of
agreement with the statement (1 = totally disagree and 7 = totally agree). In total, the
creativity measure consists of 12 items, of which the first six are related to novelty and the
remaining six regard the utility of the idea. Since this paper used a self-report measure of
creativity, undoubtedly it involves a high degree of bias and benevolence effect. However,
the items used to measure creativity provide a good measure of creative behavior, as argued
by previous researches, which was favor of creative self-efficacy for creativity to emerge
(see, Awater & Carmeli, 2009).

The quality of the relationship between the superior and the subordinate was measured by
taking the average of the respondent’s response to 14 items of 7-point Likert-type scales
based on the work of Dansereau et al. (1975), Liden & Graen (1980), Graen et al. (1982),
Liden et al. (1993), Liden & Maslyn (1998), Schriesheim et al. (1998), and Lee et al. (2012).
A high score means that the employee maintains a high quality LMX with their superior,
while a low mean score implies a low quality exchange. Meanwhile, the quality of the
relationship between the employee and their work group is measured by taking the average of
the employees’ response to 19 items of seven-point scale that adapted from Seers (1989).
The employees were requested to express their degree of agreement about a series of
statements concerning their relationship with their work group. A high score implies a high-
quality TMX relationship and vice versa.

**Data Analysis Method**
The data was analyzed descriptively and statistically through statistical software SPSS. In the
descriptive analysis, mean scores were calculated to measure the level of creativity as well as
the quality of LMX and TMX. Besides analyzing the results as a whole, this paper also
provided a comparison between two groups of employee; leaders and subordinates.
Subsequently, a t-test will be used to compare the mean scores between these two groups of
employee on the three variables being studied; creativity, the quality of LMX, and the quality
of TMX. In a further analysis, the relationship between LMX and TMX with creativity will
be analyzed using correlation and multiple regression analysis. This is to ascertain the
relationship between LMX and TMX, and creativity.

**Findings**

**Background of the Respondents**
This section provides brief information on the demographic background of the respondents
participated in this study. As presented in Table 1, majority of respondents are female, where
from a total of 502, 80.9% were female and only 19.1% were male. Of the 502 respondents,
18% were leaders and 81% were subordinates. About 21.3% of respondents have worked
with the hospital for over 10 years, while roughly 39.5% between 4-10 years, and 39.2% less
than 3 years. About 55.8% of the respondents have had a working experience prior to joining the hospital. With regard to age, more than two-third of the respondents are between 18-32 years old, 23.1% between 33-47 years old, and only 7.2% were older than 48 years old. On the level of education, all respondents have a formal education such as a Diploma (57.9%), Bachelor Degree (12%) and Master (1.8%). Finally, in terms of number of workmates, 35.5% had 11 – 20 workmates, 30.5% had more than 20 workmates, and 34% of them had 10 workmates or less.

Table 1: Demographic distribution of the respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>96</td>
<td>19.1</td>
</tr>
<tr>
<td>Female</td>
<td>406</td>
<td>80.9</td>
</tr>
<tr>
<td>Total</td>
<td>502</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leader</td>
<td>94</td>
<td>18.7</td>
</tr>
<tr>
<td>Subordinate</td>
<td>408</td>
<td>81.3</td>
</tr>
<tr>
<td>Total</td>
<td>502</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Years of Service</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;3 yrs</td>
<td>197</td>
<td>39.2</td>
</tr>
<tr>
<td>4-5 yrs</td>
<td>96</td>
<td>19.2</td>
</tr>
<tr>
<td>6-10 yrs</td>
<td>102</td>
<td>20.3</td>
</tr>
<tr>
<td>&gt;10 yrs</td>
<td>107</td>
<td>21.3</td>
</tr>
<tr>
<td>Total</td>
<td>502</td>
<td>100.0</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Working Experience</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>280</td>
<td>55.8</td>
</tr>
<tr>
<td>No</td>
<td>222</td>
<td>44.2</td>
</tr>
<tr>
<td>Total</td>
<td>502</td>
<td>100.0</td>
</tr>
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<table>
<thead>
<tr>
<th>Age Group</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-32 years old</td>
<td>350</td>
<td>69.7</td>
</tr>
<tr>
<td>33-47 years old</td>
<td>116</td>
<td>23.1</td>
</tr>
<tr>
<td>48 years old &amp; above</td>
<td>36</td>
<td>7.2</td>
</tr>
<tr>
<td>Total</td>
<td>502</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPM/STPM/Certificate</td>
<td>142</td>
<td>28.3</td>
</tr>
<tr>
<td>Diploma</td>
<td>291</td>
<td>57.9</td>
</tr>
<tr>
<td>Bachelor Degree</td>
<td>60</td>
<td>12.0</td>
</tr>
<tr>
<td>Master</td>
<td>9</td>
<td>1.8</td>
</tr>
<tr>
<td>Total</td>
<td>502</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Workmates</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;5</td>
<td>64</td>
<td>12.8</td>
</tr>
<tr>
<td>5-10</td>
<td>110</td>
<td>21.9</td>
</tr>
</tbody>
</table>
Table 2: Overall level of creativity, LMX and TMX by category

<table>
<thead>
<tr>
<th>Level of Creativity</th>
<th>Leader</th>
<th>Subordinate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>1(1.2%)</td>
<td>11(2.7%)</td>
<td>12(2.4%)</td>
</tr>
<tr>
<td>Moderate</td>
<td>38(40.4%)</td>
<td>258(63.2%)</td>
<td>296(58.9%)</td>
</tr>
<tr>
<td>High</td>
<td>55(58.5%)</td>
<td>139(34.1%)</td>
<td>194(38.6%)</td>
</tr>
</tbody>
</table>

| Mean Score t-statistics (significant level) | 5.26 | 4.74 | - | 5.062(0.000)* |

<table>
<thead>
<tr>
<th>LMX’s Quality</th>
<th>Leader</th>
<th>Subordinate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>4(4.3%)</td>
<td>16(3.9%)</td>
<td>20(4.0%)</td>
</tr>
<tr>
<td>Moderate</td>
<td>21(22.3%)</td>
<td>137(33.6%)</td>
<td>158(31.5%)</td>
</tr>
<tr>
<td>High</td>
<td>69(73.4%)</td>
<td>255(62.5%)</td>
<td>324((64.5%)</td>
</tr>
</tbody>
</table>
The relationship between LMX, TMX and creativity

Table 3 presents the result from correlation analysis between LMX, TMX and the level of creativity. The results show that both LMX and TMX are significantly correlated with the level of creativity of the employees in the private hospitals being studied. And, both LMX and TMX are positively correlated with level of creativity. However, the sizes of the correlation coefficient indicate that the relationship between TMX and creativity is much stronger than the relationship between creativity and LMX.

### Table 3: Correlation between LMX, TMX and Creativity

<table>
<thead>
<tr>
<th>Level of Creativity</th>
<th>Category</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean Score</td>
<td>5.55</td>
<td>5.30</td>
</tr>
<tr>
<td>t-statistics</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-1.826(0.069)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TMX’s Quality</th>
<th>Category</th>
<th>Leader</th>
<th>Subordinate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>2(2.1%)</td>
<td>5(1.2%)</td>
<td>7(1.4%)</td>
<td></td>
</tr>
<tr>
<td>Moderate</td>
<td>25(26.6%)</td>
<td>148(36.3%)</td>
<td>173(34.5%)</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>67(71.3%)</td>
<td>255(62.5%)</td>
<td>322(64.1%)</td>
<td></td>
</tr>
</tbody>
</table>

| Mean Score          | 5.51         | 5.33   | -           |
| t-statistics (significant level) | -7.779 | -7.779 |
|                     | -1.627(0.104) |

*Significant at 5% level for t-independent sample tests for different between mean
In addition to the correlation analysis, we analyzed the relationship between creativity, LMX and TMX using multiple regression analysis. In the Ordinary Least Squared (OLS) regression, the dependent variable is creativity (CR), while the independent variables are LMX and TMX. The mean scores of the variables from each respondent were used in the estimation. The result from regression analysis is as followed:

$$CR = 2.468 + 0.012LMX + 0.430TMX$$

(0.208)* (0.041) (0.049)*

$$R^2 = 0.219$$
$$F-Statistics = 69.976$$
Figure in () is standard error
* Significant at 5% level

The result from multiple regression analysis is consistent with the results from correlation analysis which found a positive relationship between both LMX and TMX, and the level of creativity. The value of R squared implicated that both LMX and TMX can only explained about 21.9% of any variation in the level creativity among employees. Estimation result of regression analysis also shows that only TMX is significantly related with creativity at 5% significant level. The findings indicated that Team-member exchange is an important factor in influencing the level of employees’ creativity. Meanwhile, in the case of Leader-member exchange, even though it’s positively correlated with creativity, it was found to have no impact on creativity.

**Discussion and Conclusion**

This paper investigated how working relationship in the private hospitals is related to employee creativity at work. Two aspects of working relationship were examined, namely LMX and TMX. The study was carried-out at four private hospitals in Malaysia involving 502 respondents. This study found that both LMX and TMX were positively associated with the level of creativity. This study also found that TMX influences the level of creativity more than LMX. The findings of this study was consistent with the findings from previous studies, which found LMX and TMX were positively associated with creativity (for instance, study by Tierney et al., 1999; and Atwater & Carmeli, 2009). However, results from multiple regression analysis found that only TMX is statistically influences creativity, and not the LMX. Thus, this study concludes that a high quality of working relationship between employees and their teammates (the TMX) could significantly and positively contribute to high level of creativity among employees.

Findings from this study suggested the importance of establishing a high quality teamwork relationship between employees in the organizations in order to obtain high creativity from the employees. Therefore, leaders have to play an active role in encouraging and supporting the adequate interactions amongst their subordinates in the drive to nurture creative efforts. In this vein, private hospitals should focus their efforts in increasing reciprocity of quality exchanges between teammates in order to encourage creativity behaviors.

Organizations should realize that support from leaders is very important to increase the quality of Team-member exchange. With this regard, leaders should focus on understanding the needs of their subordinates for quality relationship, being more supportive with less
creative employees to encourage them to engage in creative efforts. Leaders should boost all team members to learn and share what they have learnt from other teammates. This could be done by facilitating the climate, the work structure and the human resource practices that may encourage more creative ideas from the employees.

In conclusion, the high quality of working relationship among work group is necessary for promoting employee creativity and eventually the survival of the organization in the face of fierce competition and rapidly changing technological, economic and market conditions. By improving creativity of employee, organizations can help their employees win the race of sustained competition in the industry particularly in healthcare services.

References
Leader-Member Exchange vs. Team-Member Exchange: Which One is More Important for Employees’ Creativity?


Entrepreneurial Orientation and Market Orientation on SME Performance

Abstract

This study examine the effect of entrepreneurial orientation and market orientation on small and medium enterprise (SME) performance using the structural equation modelling (SEM). There has been relatively little research that examines the relationship between entrepreneurial orientation, market orientation and the consequences on business performance of specific industry of SME in developing countries. This paper represents an attempt to do so from the context of Malaysian SME in food and beverages industry. A response rate of 117 SMEs in Malaysia and the findings show that entrepreneurial orientation exhibit a positive effect on market orientation, while market orientation exert a positive effect on SME performance. This paper provides suggestions for entrepreneurs about how entrepreneurial orientation and market orientation can have a positive impact on their SME performance.

Keywords: Entrepreneurial Orientation, Market Orientation, Performance, SME.

Introduction

This study aims to examine how a company can improve its performance. It emphasises on behaviour that could facilitate companies to achieve better performance. This study focuses on small and medium enterprises (SME) in Malaysia. Small and medium enterprises are recognised as the backbone to any economy as they have been a very important generator of employment and economic growth. According to SME Corporation Malaysia (2011), there are 434,939 SMEs registered with the authorities and divided into three sectors namely services, manufacturing and agriculture. SME in service sector contribute to 86.6% of overall number of SME in Malaysia while manufacturing and agriculture represent 7.2% and 6.2% respectively. In Malaysia, SME account for about 99% from total number of business establishment and they contribute 31% of the nation’s gross domestic product (GDP). SMEs also contribute to 56% of total employment and 19% of exports of the country (National SME Development Council, 2010).

Even though SMEs are an important entity of economic growth in many countries, the contribution of SMEs to the Malaysian economy is relatively low compared to industrial countries and other developing nations. SMEs in Singapore and Thailand contribute 49% and 38% of the nations’ GDP respectively compared to 31% of Malaysian SMEs (National SME Development Council, 2010). In order to response on economic downturn in 2009, Malaysian government commenced several policies and initiatives to stimulate SMEs activities. As at end of July 2010, 65% of RM15.6 billion fund allocated for SMEs through two stimulus packages introduced by the Government have been burstto benefit about 79,000 SMEs (National SME Development Council, 2010). The government through the New Economic
Model and Tenth Malaysia Plan had given the priority to unleash the available potential of SMEs (National SME Development Council, 2010). SMEs are expected to increase the competitiveness and be resilient to the changing environment of business.

A case study research conducted by Central Bank of Malaysia (2003) had identified 10 critical success factor and common issues of Malaysian SMEs. Among the critical success factors identified include entrepreneurial orientation and market orientation. These factors were also recognised as crucial elements to generate global competitiveness among SMEs in Malaysia. Entrepreneurial orientation is related to the propensity of a company’s top management to take risky action, be innovative and proactive (Morris and Paul, 1987). Market orientation on the other hand could enhance firm performance by satisfying customer’s needs and by facilitating sharing of competitor’s information and interfunctional coordination (Narver and Slater, 1990). Entrepreneurial orientation and market orientation are the essentials of this research while innovativeness is also covered under the dimensions of entrepreneurial orientation.

This study is intended to examine the application of entrepreneurial orientation and market orientation in Malaysian SMEs. It is also expected to give exposure to the SME managers on implementation of entrepreneurial orientation and market orientation in their business. The study was guided by major research questions as follows:

1. Do the entrepreneurial orientation dimensions of SME play roles in improving its market orientation?
2. Does the market orientation play roles in improving SMEs performance?

**Literature Review**

**Small and Medium Enterprise in Malaysia**

According to National SME Development Council of Malaysia (2011), the definition of SMEs is categorized into three category based on two criteria which are the total sales turnover or revenue by a business in a year or the number of full time employees by a business. The first category of SME is micro company. In term of sales turnover, micro company is defined as a company with less than RM250,000 of annual sales turnover. In term of number of full time employees, micro company has less than 5 employees. The second category is the small company. In term of sales turnover, small company gains annual sales turnover of RM250,000 to less than RM10 million. The number of full time employees in small company is from 5 to less than 50 full time employees. The second category is the small company. In term of sales turnover, small company gains annual sales turnover of RM250,000 to less than RM10 million. The number of full time employees in small company is from 5 to less than 50 full time employees. The third category is the medium company. Medium company are defined as a company that earn RM10 million to RM25 millions of sales turnover annually. In term of number of employees, medium company has from 50 to less than 150 employees.

**Entrepreneurial Orientation**

Matsuno, Mentzer, & Ozsomer (2002) define entrepreneurial orientation as “organization’s predisposition to accept entrepreneurial processes, practices, and decision making, characterized by its preference for innovativeness, risk taking, and pro-activeness”. The research also found that entrepreneurial orientation has positive impact on business performance. However, it is so because of the intervened path through low departmentalization and high market orientation, not as a direct impact to the business performance. Business organizations with entrepreneurial orientation possibly result in new product (Li, Liu, and Zhao, 2006), services, or technological processes (Lumpkin and Dess, 1996), and alter existing technologies or practices and ventures (Kimberly, 1981). Some of
the previous research found that firms which establish more strategic entrepreneurial orientation are performing better compared to other the average company (Wiklund, 1999; Zahra, 1991; Zahra & Covin, 1995).

Miller (1983) first suggests that entrepreneurial orientation has three dimensions namely innovativeness, risk taking and proactiveness. Other literature that suggested similar dimensions of entrepreneurial orientation as Miller (1983) include, Covin & Slevin (1989), Wiklund (1999), Kreiser et al. (2002), Messeghem (2003), Tarabishy et al. (2005), Li et al. (2008) and Merlo & Auh (2009). Lumpkin & Dess (1996) defined that innovativeness is the tendency of a company to engage in and support new ideas, novelty, experimentation and the process of creativity which may result in new products, services or processes. Innovativeness described as the quest of creative, unusual or novel solutions to problems and needs. The solutions results an active form of technologies, processes, new products and services. Damanpour (1991) suggest that the adoption of innovation is commonly intended to contribute to the effectiveness or performance of the company. Venkatraman (1989) defined proactiveness as the process of “seeking for new opportunities which may or not be related to the present line of operations, introduction of new products and brands ahead of competition, strategically eliminating operations which are in the mature or declining stages of life cycle”. Miller & Friesen (1982) suggest that risk taking reflects the willingness of management to make large and risky commitments of resources and face potential of costly failures. Lumpkin (1996) suggest that all businesses have the potential risk to a certain degree and it would be not accurate to say “absolutely no risk”. As such, there are different levels of risk-taking behaviour.

**Market Orientation**

Two most dominant concepts of market orientation were the organization culturally oriented approach (Narver & Slater, 1990) and the behavioural oriented approach (Kohl & Jaworski, 1990). Kohli & Jaworski (1990) defined market orientation as the implementation of the marketing concept, which posits that organizations should focus on meeting the wants and needs of its customers. Market orientation is the activities that address the “organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments and organization wide responsiveness to this intelligence”. Pelham & Wilson, (1996) define market orientation as the business culture that enables a firm to achieve excellent performance through its commitment to create superior value of products and services to customers. Moris & Lewis (1995) suggest that market orientation is related to performance and significant relationship exists between market and entrepreneurial orientation. Some scholars also suggested that firms which were more entrepreneurial also tended to demonstrate a stronger market orientation (Morris & Paul, 1987; Miles & Arnold, 1991).

Langerak (2003), Li et al. (2008) and Merlo & Auh (2009) suggested that market orientation have three dimensions namely competitor orientation, customer orientation and interfunctional orientation. Day and Wensley (1988), Aaker (1988), Porter (1980) define competitor orientation as the ability for a seller to understand the short term strengths and weaknesses and also the long term capabilities and strategies for both current customers and key potential customers. Deshpande et al. (1992) describe customer orientation as a mind-set that puts clients’ interests ahead of the interests of other stakeholders including the owners, managers and employees. Narver & Slater (1990) define interfunctional orientation as the coordinated utilization of company resources in creating superior value for target customers.
**Business Performance**

Business performance refers to the success level of a business firm. This relates to the business’ independent criteria to assess its overall outcomes, in relation to its own goals. Performance measurement and assessment provides information so companies can take relevant actions and make changes in strategic orientation. This in turn helps the company ensure sustainable future directions (Najmi et al., 2005; Chan et al., 2003).

Merlo & Auh (2009) suggest business performance to include five dimensions which are cash flow, sales volume, market share, revenue and profitability. Cash flow is the movement of money in or out of a business, project or financial products (CFA Institute, 2007). Faculty of Business and Economics, Monash University define sales volume as “the total revenue produced or the total number of units of a product sold in a given period”. It is an effective method to determine the marketing success of a company. Farris, Bendle, Pfeifer and Reibstein (2010) define market share as the percentage of the market acquired by an entity. It shows the position of a company among its competitors. Revenue may refer to business income in general or refer to the number of monetary units received in a period of time. Profit or net income can be obtained by total revenue minus total expenses of a business period (William et al., 2008). Gitman (2009) define profitability as the relationship between revenues and cost generated by using the firm’s asset – both current and fixed – in productive activities.

**Conceptual Framework**

This research aims to examine the effects of entrepreneurial orientation on market orientation and also to study the effects of market orientation on SMEs performance. A conceptual framework was designed based on certain dimensions used by previous studies in order to start the research. Conceptual framework is then established and tested as shown in Figure 1.

This study adopted the dimensions used from previous studies for measuring entrepreneurial orientation. There are three dimensions constructed in previous studies that show the reliability of the dimensions on entrepreneurial orientation namely innovativeness, risk taking and proactiveness (Miller, 1983; Covin & Slevin, 1989; Wiklund, 1999; Lee and Peterson, 2000; Kreiser et al. 2002; Messeghem, 2003; Tarabishy et al. 2005; Li et al., 2008 and Merlo & Auh, 2009).

In measuring market orientation, three dimensions were adopted as they shown reliability in previous study namely competitor orientation, customer orientation and interfunctional orientation (Langerak, 2003; Jaworski & Kohli, 1993; Li et al. 2008; and Merlo & Auh, 2009).
Figure 1: Conceptual Framework on Entrepreneurial Orientation and Marketing Orientation and its Effect on SMEs Business Performance.

In order to measure business performance, 5 items adopted from previous study by Merlo & Auh (2009) were used. The items are level of cash flow, sales volume, market share, profitability and revenue.

Hypothesis Development

**Relationship between entrepreneurial orientation and market orientation.**
Entrepreneurial orientation potentially has positive relationship with marketing orientation and business performance. Market orientation on the other hand can increase firm performance as suggested by literatures, but it could also be affected by entrepreneurial orientation (Bhuian, Menguc, and Bell 2005). Meanwhile, market orientation when combined with entrepreneurial orientation enables companies to focus on product and market innovativeness to satisfy perceived needs of customers. Therefore, the potential effects of entrepreneurial orientation on marketing orientation could emphasize on product designs, market research, advertising and promotion (Scherer, 1980; Miller and Friesen, 1978). The rational would suggest that entrepreneurial orientation is likely to effect marketing orientation. Therefore, the following hypothesis is presented:

\[ H_1: \quad \text{Entrepreneurial orientation has a significant relationship with market orientation} \]

**Relationship between market orientation and business performance.**
Market orientation facilitates collection and use of market information as well as focusing on coordinating resources to deliver superior customer value (Slater and Narver, 1995, 1994). Thus, a company with a high degree of market orientation constantly looks for alternative sources of competitive advantage in order to determine how it can effectively create greater value for its present and future potential customers (Li, Sun, and Liu, 2006). Although the implication of market orientation has been established in market-based economies in which the majority theories are developed and tested, empirical evidence in smaller transitional economies like SMEs are limited to draw definitive conclusion. Therefore, the following hypothesis is presented:

\[ H_2: \quad \text{Market orientation has a significant relationship with SMEs performance} \]
METHODOLOGY

Data Collection Method
Data collection was conducted by survey method. The survey of this study was conducted based on a listed questionnaires adopted from previous study has been done in the field of entrepreneurial orientation and market orientation. The distribution of questionnaire includes the post mails and online questionnaires. Questionnaires sent by post were addressed to the SMEs listed on the SME Business Directory. The envelope contained a set of questionnaire and a return envelope. The return envelopes were written with the address of researcher and affixed with postage stamps in order to facilitate the respondents to return the filled up questionnaires. It was also mentioned on the questionnaire that it supposed to be answered by managerial level or higher rank of the SMEs as a control measure.

The online questionnaire was developed using free online survey application available on the internet called Qualtrics.com. An internet address that links to the online questionnaire were provided by Qualtrics.com as the questionnaire was ready to be published online. The internet address of the questionnaire then emailed to the respondents using the email address provided in the SME Business Directory. The online questionnaire could be accessed via the following URL, subject to a period of time prescribed by Qualtrics.com:

http://cengagebrm.qualtrics.com/SE/?SID=SV_3lOmFpzdG44hUM

Sampling Technique
This study used the non-probability sampling technique. The non-probability sampling chosen was judgment sampling. Judgment sampling comprises the selection of subjects who are most favourably placed or in the best position to provide the required information (Sekaran, 2003).

In order to employs the judgmental sampling, the list of SMEs in Malaysia is gathered from Malaysia SME Business Directory (Malaysia SME, 2010). From the total estimated number of 19,110 SMEs in the directory, the selection was made for the foods and beverages industry with an estimated total number of 1,761 companies. Out of the total listing for foods and beverages industry from the SME business directory, shortlisting have been made to finalise the total sampling of 500 companies. Shortlisting of judgmental sampling were made based on prior discussions and advices from personnel in charge of SME development in various organisations namely SME Corporation, Malaysia SME and Federal Agriculture and Marketing Agency (FAMA).

Target Respondents
The population or sampling unit in this study was the managerial level or higher rank of SMEs in the manufacturing industry of food and beverages. This group of respondent is expected to meet the requirements of the study by providing valid and accurate view of their company. For the purpose of this research, data collection was conducted to all states of Peninsular Malaysia including the northern region, central region, southern region and eastern region. Sabah and Sarawak were excluded in the survey as it would increase the delivery cost of questionnaire and will take more time for data collection.
Sample Size
All categories under definition of SME including micro company, small company and
medium company in manufacturing industry are included for the purpose of the research. The
total number SMEs in sub sector of food and beverages industry as listed in SME Business
Directory is estimated at 1,761 companies. As suggested by Israel (2009), when the number
of population is 2,000, the sample needed with 90% of confidence level is at least 95
respondents. In order to make the result more reliable, a bigger sample size was
recommended. For the purpose of this study, 500 questionnaires were planned to be
distributed.

Questionnaire Development
The questionnaire was adopted from Merlo & Auh (2009) and consists of two parts. The first
part of the questions consists of 25 items of entrepreneurial orientation, market orientation,
and SMEs business performance. The second part of the questionnaires is the demographic
questions related to respondent’s background of company consisting 7 items.

A seven-point of Likert Scale were used to measure the three categories of structures namely
entrepreneurial orientation, market orientation, and SMEs business performance. For
entrepreneurial orientation and market orientation, the scales were ranging from “1” strongly
disagree to “7” strongly agree. Meanwhile for SMEs performance, the scales were ranging
from “1” much worse to “7” much better. The seven-point of Likert Scale is a valid and
appropriate measurement as many previous researches has been used the seven scales to
measure the topic on entrepreneurial orientation, market orientation, and SMEs performance
(Li et al., 2008; Matsuno et al., 2002; Merlo & Auh, 2009).

Validity/ Reliability of the Data
The validity and reliability test of the data were conducted to ensure the dimensions used are
suitable for this study. The Cronbach alpha was used to test the reliability of the data. The
higher result than 0.5 should be accepted as the valid data and result as recommended by
Nunnally (1978).

A pilot test of research had been conducted to test the reliability of the dimension used and
the data. The pilot test was conducted through a separate sessions with the total number of 10
respondents. The pilot test has shown that all respondents understood the questionnaire
sufficiently. Cronbach alpha was calculated for the total of seven dimensions consists of 25
items. The results which are within 0.643 to 0.930 indicate that the items have good internal
consistency for each construct. Therefore, no items should be deleted in the actual study as
the levels of Cronbach alpha are satisfactory. All 25 items had been used as valid and reliable
questions in the actual study.

DATA ANALYSIS
Data collected were analysed using the SPSS Statistics 17.0 application and AMOS 5.0
application. Analysis were comprises of descriptive statistic, exploratory factor analysis
(EFA), confirmatory factor analysis (CFA), and structural equation modelling (SEM).

Respondent Profile
Respondents in this survey consist of middle to upper managerial executive in small and
medium enterprises. Total questionnaires distributed were 500 questionnaires and 117
questionnaires were valid to be used which is 21.3% response rate. All respondent were
representing the food & beverages industry at 100% of the total. Table 1 shows company profile of the respondents.

**Descriptive Statistics**

Descriptive statistic was used to provide an overview of the respondents’ company background. The average score for entrepreneurial orientation, market orientation and SME performance are 4.877, 5.189 and 3.658 respectively.

**Table 1: Company Profile of Respondents**

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food &amp; Beverage</td>
<td>117</td>
</tr>
<tr>
<td>Number of staff:</td>
<td></td>
</tr>
<tr>
<td>1 to 4</td>
<td>3</td>
</tr>
<tr>
<td>5 to 49</td>
<td>108</td>
</tr>
<tr>
<td>50 to 199</td>
<td>6</td>
</tr>
<tr>
<td>Marketing manager report directly to CEO (or equivalent position):</td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>107</td>
</tr>
<tr>
<td>No</td>
<td>10</td>
</tr>
<tr>
<td>Formal background of CEO (or equivalent position):</td>
<td></td>
</tr>
<tr>
<td>Finance / Accounting</td>
<td>23</td>
</tr>
<tr>
<td>Marketing</td>
<td>56</td>
</tr>
<tr>
<td>Sales</td>
<td>17</td>
</tr>
<tr>
<td>Operations</td>
<td>8</td>
</tr>
<tr>
<td>Production / Manufacturing</td>
<td>12</td>
</tr>
<tr>
<td>Human Resources</td>
<td>1</td>
</tr>
<tr>
<td>Highest level with background in marketing</td>
<td></td>
</tr>
<tr>
<td>Frontline Level</td>
<td>1</td>
</tr>
<tr>
<td>Middle Management Level</td>
<td>22</td>
</tr>
<tr>
<td>Senior Management Level</td>
<td>70</td>
</tr>
<tr>
<td>Board Level</td>
<td>23</td>
</tr>
<tr>
<td>None</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>117</td>
</tr>
</tbody>
</table>

**Exploratory Factor Analysis (EFA)**

Exploratory factor analysis (EFA) was used to define the number of continuous latent variables that needed to be explained in the correlations among a set of observed variables in the research. The exploratory factor analysis (EFA) was conducted by using principal axis factoring method with varimax rotation. The EFA had been conducted on entrepreneurial orientation, market orientation and business performance. All of the items for entrepreneurial orientation could be accepted as it shows acceptable loading factor above 0.5. EFA conducted on market orientation show that customer orientation dimension should be dropped as the
loading factors are below acceptable threshold of 0.5. Other items namely competitor orientation could be accepted as the loading factors are above acceptable threshold of 0.5. EFA conducted on SME performance shows that all of the items could be accepted as it shows acceptable loading factor above 0.5, except for market share that recorded loading factor below 0.5.

**Measurement Model**

Confirmatory Factor Analysis (CFA) is used in studying the relationships between a set of observed variables and a set of continuous latent variables. The measurement model serve the purpose in describing on how well is the observed indicators could be served as a measurement instrument for the latent variables. Structural equation modelling (SEM) is used in this study to assess the fitness of the data set.

**First Order Confirmatory Factor Analysis for Entrepreneurial Orientation**

Two analyses had been conducted to measure the entrepreneurial orientation measurement model. The first analysis is first order CFA which was conducted using AMOS. The purpose of conducting CFA is to reconfirm the result of EFA of the same data. The first order CFA result showed that the goodness-of fit was satisfied. The result show that chi square is not significant (p=0.00, x²=34.284, df=11), GFI value of 0.931, RMSEA value of 0.135 and CFI value of 0.958. The results show that 7 items of first-order CFA model of two dimensions were fit to the sample data.

**Second Order Confirmatory Factor Analysis for Entrepreneurial Orientation**

The second order CFA was run in order to examine the parameter. For second order CFA, the two item namely innovativeness and proactiveness were measured with entrepreneurial orientation. There are two items for innovativeness, three items for risk taking and two items for proactiveness. The second order CFA was run based on 7 items. The measurement model result showed that the goodness-of fit was moderately satisfied. The chi-square is not significant (p=0.00, x²=34.284, df=11), GFI value of 0.931, RMSEA value of 0.135 and CFI value of 0.958.

**Reliability of Entrepreneurial Orientation**

Cronbach’ alpha was used to compute the reliability of the data. Coefficient for the 7 items was computed. The coefficient alpha obtained the values that exceed the maximum value suggested. The values are 0.809, 0.863 and 0.937 respectively for innovativeness, risk taking and proactiveness. The values indicate the good reliability of the data set.

The estimates of standard factor loadings were used to determine the validity of the entrepreneurial orientation dimensions. The factor loadings in the CFA resulted from 0.701 to 1.036 for the entrepreneurial orientation dimensions. The average variance extracted (AVE) was calculated for assessing the discriminant validity with the value of 0.679 for innovativeness, 0.513 for risk taking and 0.883 for proactiveness. This indicates that the convergent validity for each dimension of the entrepreneurial orientation scale was established and provided evidence of construct validity (Hair et al., 1998). Table 2 shows the result for reliability test for 7 items.

<table>
<thead>
<tr>
<th>Items</th>
<th>Factor Loading</th>
<th>SMC (R²)</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovativeness (Cronbach Alpha = 0.809)</td>
<td>0.835</td>
<td>0.697</td>
<td></td>
</tr>
</tbody>
</table>
First Order Confirmatory Factor Analysis for Market orientation

Two analyses had been conducted to measure the Market orientation measurement model to reconfirm the result of EFA of the same data. The first order CFA result showed that the goodness-of fit was satisfied. The result show that chi square is significant (p=0.127, $x^2=17.641$, $df=12$), GFI value of 0.961, RMSEA value of 0.064 and CFI value of 0.987. Sharma (1996) explained that the value of chi square has fundamental issue on validity and it is sensitive with to the sample size. GFI and CFI indicators become the choice of the fit model as they are not affected with problem of sample size (Burton, Lichtenstein, Netemeyer & Garretson, 1998; Sharma 1996). Overall, the values were close to the threshold and results show that 7 items of first-order CFA model of two dimensions were fit to the sample data.

Second Order Confirmatory Factor Analysis for Market orientation

The second order CFA was run in order to examine the parameter. For second order CFA, the two item namely competitor orientation and interfunctional orientation were measured with market orientation. There are four items for competitor orientation and also three items for interfunctional orientation. The analysis will examine that the two dimensions is under the market orientation construct. The second order CFA was run based on 7 items. The measurement model result showed that the goodness-of fit was satisfied. The chi-square is not significant (p=0.00, $x^2=105.273$, $df=40$), GFI value of 0.873, RMSEA value of 0.119 and CFI value of 0.932.

Reliability of Market Orientation

Coefficient for the 7 items was computed and the value exceeded the minimum standard of 0.70 (Nunnally and Bernstein, 1994) indicated as a good and reliable data. The coefficient alpha obtained the values that exceed the maximum value suggested. The values are 0.874 and 0.829 (competitor orientation and interfunctional orientation). The values indicate the good reliability of the data set. The factor loadings in the CFA resulted from 0.82 to 0.96 for the market orientation dimensions. The AVE for competitor orientation is 0.790 and 0.860 for interfunctional orientation. This indicates that the convergent validity for each dimension of the market orientation scale was established and provided evidence of construct validity (Hair et al., 1998). Table 3 shows the result for reliability test for 7 items of market orientation.
Table 3: Reliability Value for CFA of Market orientation (7 items)

<table>
<thead>
<tr>
<th>Items</th>
<th>Factor Loading</th>
<th>SMC (R²)</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitor Orientation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CoO1</td>
<td>0.82</td>
<td>0.68</td>
<td></td>
</tr>
<tr>
<td>CoO2</td>
<td>0.89</td>
<td>0.79</td>
<td></td>
</tr>
<tr>
<td>CoO3</td>
<td>0.95</td>
<td>0.90</td>
<td></td>
</tr>
<tr>
<td>CoO4</td>
<td>0.89</td>
<td>0.79</td>
<td>0.790</td>
</tr>
<tr>
<td>Interfunctional Orientation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IO1</td>
<td>0.89</td>
<td>0.79</td>
<td></td>
</tr>
<tr>
<td>IO3</td>
<td>0.93</td>
<td>0.86</td>
<td></td>
</tr>
<tr>
<td>IO5</td>
<td>0.96</td>
<td>0.92</td>
<td>0.860</td>
</tr>
</tbody>
</table>

Confirmatory Factor Analysis for Business Performance

Confirmatory factor analysis model had been conducted to measure the business performance measurement model to reconfirm the result of EFA of the same data. The CFA result showed that the goodness-of fit was satisfied. The result show that chi square is significant (p=0.00, x²=59.32, df=2), GFI value of 0.827, RMSEA value of 0.497 and CFI value of 0.815. The results show that 4 items of CFA model were moderately fit to the sample data.

Reliability of Business Performance

Coefficient for the 4 items was computed and the value exceeded the minimum standard of 0.70 (Nunnally and Bernstein, 1994) indicated as a good and reliable data. The coefficient alpha obtained the values that exceed the maximum value suggested at 0.875. The values indicate the good reliability of the data set. The factor loadings in the CFA resulted from 0.610 to 0.945. This indicates that the convergent validity for each dimension of the business performance scale was established and provided evidence of construct validity (Hair et al., 1998). Table 4 show the result for reliability test for 4 items.

Table 4: Reliability Value for CFA of Business Performance (4 items)

<table>
<thead>
<tr>
<th>Items</th>
<th>Factor Loading</th>
<th>SMC (R²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BP1</td>
<td>0.610</td>
<td>0.372</td>
</tr>
<tr>
<td>BP2</td>
<td>0.768</td>
<td>0.589</td>
</tr>
<tr>
<td>BP4</td>
<td>0.845</td>
<td>0.714</td>
</tr>
<tr>
<td>BP5</td>
<td>0.945</td>
<td>0.893</td>
</tr>
</tbody>
</table>

Structural Equation Modelling (SEM)

A structure model of entrepreneurial orientation was conducted to estimate the parameters. In this model, there were three models from the first-order constructs which are the entrepreneurial orientation, market orientation and business performance. The dimension of entrepreneurial orientation was measured by two items, market orientation by seven items and business performance by two items. The relationships between latent variables with the items are showed by the arrows as seen in Figure 2 while Table 5 shows the result of SEM.
Figure 2: Structural Equation Model for Entrepreneurial Orientation, Market Orientation and Business Performance

Table 5: Result of Structural Equation Model for Entrepreneurial Orientation, Market Orientation and Business Performance

<table>
<thead>
<tr>
<th>Goodness-of-fit statistic</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Absolute-fit-measures</strong></td>
<td></td>
</tr>
<tr>
<td>Probability value for the $x^2$ statistic ($x^2 = 381.798d/114$)</td>
<td>0.000</td>
</tr>
<tr>
<td>CMIN/DF</td>
<td>3.349</td>
</tr>
<tr>
<td>Good of Fit Index (GFI)</td>
<td>0.777</td>
</tr>
<tr>
<td>RMSEA</td>
<td>0.142</td>
</tr>
<tr>
<td><strong>Incremental fit measures</strong></td>
<td></td>
</tr>
<tr>
<td>Adjusted Good-of-fit Index (AGFI)</td>
<td>0.665</td>
</tr>
<tr>
<td>Tucker-Lewis Index (TLI)</td>
<td>0.788</td>
</tr>
<tr>
<td>Normed Fit Index (NFI)</td>
<td>0.794</td>
</tr>
<tr>
<td>Comparative Fit Index (CFI)</td>
<td>0.842</td>
</tr>
<tr>
<td><strong>Parsimonious fit measures</strong></td>
<td></td>
</tr>
<tr>
<td>Parsimonious normed fit index (PNFI)</td>
<td>0.591</td>
</tr>
<tr>
<td>Parsimonious goodness-of-fit index (PCFI)</td>
<td>0.628</td>
</tr>
</tbody>
</table>

The result for SEM indicates the acceptable goodness-of-fit model. The result show that chi square is significant ($p=0.00$, $x^2=381.798$, $df=114$), GFI value of 0.777, RMSEA value of 0.142 and CFI value of 0.842. All the result shows the value that is satisfied by the suggested
value. Although, GFI and CFI value of 0.777 and 0.842 did not meet the threshold of 0.90, but the value is still within the acceptable range of recommendation.

**Hypothesis Testing**

The hypothesis testing was conducted to determine the first relationship between entrepreneurial orientation and market orientation and the second relationship between market orientation and SMEs performance. The result of standard weighted regression for entrepreneurial orientation, market orientation and SMEs performance is shown in Table 6.

The hypothesis testing shows the satisfying estimate value of 0.703 for relationship between entrepreneurial orientation and market orientation. It indicates that entrepreneurial orientation has a significant relationship with market orientation in Malaysian SME. The result is consistent with previous researches by Li et al (2008), Matsuno et al (2002), Wiklund (1999), Zahra & Covin, (1995), and Zahra (1991).

**Table 6:** Result of standard weighted regression for entrepreneurial orientation, market orientation and SMEs performance

<table>
<thead>
<tr>
<th>Description</th>
<th>Estimate</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothesis 1: Entrepreneurial orientation has a significant relationship with market orientation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Orientation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proactiveness</td>
<td>0.703</td>
<td>0.000</td>
</tr>
<tr>
<td>Innovativeness</td>
<td>1.119</td>
<td>0.000</td>
</tr>
<tr>
<td>Risk taking</td>
<td>1.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Hypothesis 2: Market orientation has a significant relationship with SMEs performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SMEs Performance</td>
<td>0.884</td>
<td>0.000</td>
</tr>
<tr>
<td>Competitor Orientation</td>
<td>1.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Interfunctional Orientation</td>
<td>1.233</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Note: Significant level at 5%

The second hypothesis is to determine the significance between market orientation and business performance. The result shows the high estimate value of 0.884 for the relationship between market orientation and SMEs performance. It indicates that in Malaysian SMEs context, market orientation has a significant relationship on SMEs performance. This result is consistent with previous researches (Li et al., 2008; Pelham & Wilson, 1996; Moris & Lewis, 1995; Narver & Slater, 1990; Kohli & Jaworski, 1990; Jaworski & Kohli, 1993; Slater & Narver, 1995; Deshpande, Farley & Webster, 1992).

**DISCUSSION AND CONCLUSION**

**Discussion**

The significant relationship between entrepreneurial orientation and market orientation shows that SME in Malaysia are utilizing the characteristics of entrepreneurial orientation as proactiveness, risk-taking and innovativeness in meeting the purposes of market orientation. The higher entrepreneurial orientation implemented in a business, the company is more willing to implement market orientation. The results of this study also show that the characteristic of a market orientation that being practiced by SMEs in Malaysia has been significantly affects the business performance. Market orientation characteristics include interfunctional orientation of departments within company in meeting the market needs and
also the ability to understand competitor orientation in an atmosphere of commercial competition.

**Management Implication**

SMEs need to enhance the entrepreneurial orientation in various level of human resource. This includes promoting proactiveness. Proactiveness can help to find better SMEs opportunities. SMEs should be willing to take risks. Greater risks bring commonly related to better returns for the SMEs. However, SMEs have to be wise in assessing the potential risks taken; it would not compromise the company. SMEs need to take an innovative attitude in dealing with an issue. Innovativeness could create new products, services or processes with more value in the market (Lumpkin & Dess, 1996). Characteristics of entrepreneurial orientation will be able to trigger market orientation effectively.

SMEs need to understand the concept of market orientation that can provide performance benefits to the SMEs. SMEs need to put priority on the strategic planning. External environmental assessment in the strategic planning can help SMEs in identifying the competitor orientation of the respective industry. Thus, it would be easier for the SMEs to utilize existing capabilities and opportunities in order to respond to the threat of competing companies. Information sharing session on competitor's strategy should be considered as an agenda in management meetings of respective departments to better identify on how each department could take suitable action to respond.

In order to better meet the market needs, encouragements should be given to all function of company to assist other departments. SMEs have the potential to be better implement interfunctional orientation because the number of the employees is relatively smaller and less bureaucratic than the larger firms. For this purpose, the management must have the initiative to provide on-going training and awareness across the company.

**Recommendations**

The scope of the study is to cater respondents from the food and beverage sub-sector of SME. This study also focuses on three dimensions of entrepreneurial orientation namely innovativeness, risk taking and proactiveness, and also two dimensions of market orientation namely competitor orientation and interfunctional orientation. Future researches in this area could have a different sector of SME as its scope rather than manufacturing sector. Such studies are expected to provide added value to the SME operators of related industries.

Researches with specific target group of SME namely the micro enterprise, small enterprise or medium enterprise could also be made for better emphasizing the purpose of each group. These respective groups of SME might have their own different characteristics that needed to be taken into consideration in conducting researches. Different dimension in the market orientation such as top management factors, organisational systems and system orientation rewards can also be taken into account in future studies (Pulendran, Speed & Widing, 2000).

**Conclusion**

This study indicates that SMEs in Malaysia implemented entrepreneurial orientation and market orientation in order to gain superior performance. SMEs in Malaysia have to make entrepreneurial orientation and market orientation as a planned agenda and cultivated within
the company rather than merely occur spontaneously. The culture of entrepreneurial orientation and market orientation can provide SMEs towards better business performance. Thus, prepare the SMEs to improve the competitiveness towards bigger firms in respective industry.

REFERENCES

The remaining References cited in this paper have been omitted due to space considerations. Interested readers should contact the authors for a complete copy of the paper.
Brand Image and Consumers Self-Image Congruency: A Study of Thailand’s OTOP

Abstract
The theoretical issue of brand image and consumer’s self-image congruence in consumer behaviour has received great interest over the years. Previous studies indicate that the self-image congruence can affect consumers’ product preferences. To date however, application of self-congruence theories have mainly apply to establish brands or specific product types or categories. This paper reports the findings from a research study which was conducted to determine the effect of self-image congruity on Thailand’s OTOP – a community branding which represents a broad range of products and “producers”. A sample of 384 respondents which comprises of 324 locals and 60 foreign visitors were collected in OTOP main distribution outlets that include the OTOP city, the national OTOP exhibition and Thailand’s main International airport. The results show that the image of elegant, sincerity and reliability, emotion and excitement, and ruggedness emerge as a shared self-image. This paper ends by discussing the implications for the Thailand’s OTOP brand so that they can position their brands in an effective way.

Keywords: Self-Image Congruence, Thailand’s OTOP, Brand Image

INTRODUCTION
Consumers do not “consume products for their material utilities but also consume their symbolic meaning of those products as portrayed in their images (Elliot, 1997; Lee and Hyman, 2008). This means that the products that consumers consume are not only “bundles of attributes that yield particular benefits (Holt, 1995) but also they are capable of signifying symbolic meaning to consumers. Therefore, consumers’ may seek products which can offer them functional as well as symbolic benefits that can lead them to satisfaction of their needs and wants. Consumers buy products and brands they believe to possess symbolic images similar and/or complementary to their self-image, that is, to achieve image congruence (Heath and Scott, 1998). With today’s competitive market where there are a variety of factors that influence consumers’ preference and consumption behavior, brand image congruency could offer as an alternative important cue to explain the phenomenon of brand preference. The rationale for this explanation is based on Bhat and Reddy (1998) study which reported that brands have both functional as well as symbolic significance for consumers. The symbolic meaning which is attached to brands is often communicated through the use and
consumption of brands (McCracken, 1986). The motivation to express their own self is often the driving force that prompts consumers to purchase goods and services (Sirgy, 1986). What this concludes is people buy products not only for what they can do, but also for what they mean (Levy, 1959). Thus, that explains the reason that the theoretical issue of brand image and consumer’s self-image congruence in consumer behaviour has received great interest over the years.

Brands have been crucial for building relationships with consumers assuring long-term business success. Here, consumer–brand identification refers to the individual’s sense of sameness with a particular brand. Despite growing awareness, scholars (Bhattacharya and Sen, 2003; Tildesley and Coote, 2009) argue that there is still much to learn about the role of consumers’ identification with a brand, as well as its relation to consumer behavior and branding. To date however, application of self-congruence theories have mainly apply to establish brands or specific product types or categories. With respect to Thailand’s OTOP brand – a community branding which represents a broad range and quality of products from various producers, this represents a difficult challenge to the conventional image branding which refers to a specific product type and producer. For instance in 2010, a total of 33,228 producers were registered under OTOP of which community-based enterprises (CBEs), single owner enterprises, and small and medium-sized enterprises (SMEs) accounted for 66.8% of those registered. This issue gets complicated considering that as at 2002, OTOP goods represent 10-20 per cent of the country’s total exports.

Therefore, Thailand’s brand managers have an immense task to manage the relationship between their respective products which used the same brand and the meanings that local as well as foreign consumers associate with its brand. This is a big effort as a lot of money is spend by brand managers in their effort to create and support brand images that are consistent with the symbolic meaning of the brand as well as with consumers’ self-images. Hence, the main intention of this paper is to explore Thailand’s OTOP brand image with consumers’ self-image congruency. This article is part of a bigger study that looks at the development of Thailand’s OTOP branding. Coherently, the rest of the paper reads as follows. The next section presents an overview of the relevant literature of the issue. Following that is a discussion of study methodology and findings. The paper concludes with highlighting managerial implications, research limitations, and suggestions for future research.

LITERATURE REVIEW

Self-Concept
Self-concept has been defined in a number of ways. Some of these definitions include self-concept as “the totality of the individual’s thoughts and feelings having reference to themselves as subjects as well as objects” (Malhotra, 1988), “a person’s perception of his own abilities, limitations, appearance, and characteristics, including his own personality” (Graeff, 1996), and people’s “impressions of the type of person they are” (Blackwell et al., 2006). According to Rogers (1951), the concept of self “[y] is composed of such elements as the perceptions of one’s characteristics and abilities; the percepts and concepts of the self in relation to others and to the environment; the value qualities which are perceived as associated with experiences and objects; and goals and ideals which are perceived as having positive or negative valence.” It has been noted that individuals “behave in a fashion consistent with the pictures they hold of themselves and interpret any experience contradictory to this self-picture as a threat” (Rosenberg, 1979).
The self-concept process was based on the assumption that a person has a stable set of personality traits and therefore the person should behave in a similar way across different contexts (Aaker, 1999; Sirgy, 1982). Following this argument, a person is seen to project a “single” actual self of him/herself. Recent studies have however shown that individuals could also project an “ideal self” where an individual would like to see him/herself (Mehta, 1999). The self-concept was further extended to multiple selves (Markus and Nurius, 1986). We argue that the multiple self-concepts or “possible selves” (Markus and Nurius, 1986) concepts is not “appropriate” to the local Thailand culture that “suggests” that a person should be oneself. In addition, following the footsteps of others in the self-concept research (for instance Sirgy et al., 1997; Mehta, 1999) the actual self-concept was used in the present study.

**Self-image Congruity**

Prior studies in the consumer behavior literature have examined an individual’s concept of self in relation to his/her purchase behavior. In fact, the notion that consumers’ self-concept serves as a predictor of their purchasing behavior was proposed as early as in the 1960s by Grubb and Grathwohl (1967). They suggested that an individual will purchase products that have symbolic value possessing self-enhancing capabilities and, further, that these products are perceived as being similar to the individual’s self-concept. Therefore, the significance of self-concept lies in the fact that what a consumer buys can be influenced by the image that the consumer has of him/herself (Zinkham and Hong, 1991). Consequently, through the purchase and use of products consumers define, maintain and enhance their self-concept (Zinkham and Hong, 1991). As purchase and consumption is a good representation of self-expression, consumers often buy products or brands that are perceived to be similar to their own self-concept (Graeff, 1996). This coherently leads to the concept of brand image and self-image congruity or better known as self-image congruity (Sirgy et al., 1997).

Product consumption symbolizes personal attributes, motivations and social patterns. Symbolic consumption reflects the personality and lifestyle of consumers, expressing social distinctions (e.g., Sirgy, 1982). For example, people consume luxury products (e.g., high-performance automobiles) to reinforce their status symbol in society (Eastman et al., 1999; O'Cass and Frost, 2002). Consumption serves as a vehicle of self-expression (Aaker, 1996) and consumers choose products/brands perceptually consistent with their own self-concept (Grubb and Grathwohl, 1967; Sirgy, 1982). Purchasing and using products allow consumers to define, maintain, and enhance their self-concept.

Self-image congruence refers to the cognitive match between consumers' self-concept and a product/brand image, store image, destination image or user image of a given product/brand/service (Sirgy et al., 1997, 2000; Sirgy and Su, 2000). User image is a stereotyped perception of a generalized user of a particular product/brand (Sirgy, 1986). The self-image congruity facilitates positive behavior and attitudes toward products and brands (Sirgy et al., 1997). The congruence between self-image and brand image is also positively related to consumers’ product evaluations (Graeff, 1996). Therefore, the more similar consumers’ self-image is to the brand’s image, the more favourable their evaluations of that brand should be (Graeff, 1996). Recent study by Malar et al. (2011) reported that brands with actual self-congruence generate higher levels of brand attachment.

However, self-image congruity may not be an important factor in the purchase and evaluation of all product categories (Jamal and Goode, 2001). In addition, the concept has been tested to many product categories (such as shoes, clothing, cars, etc), however the theory has never
been tested to a “range of cottage industry products” that used a common community brand (which is OTOP). What’s interesting is that the OTOP products represents the unique features of a particular village which may not symbolize a common values, culture and history of the other village within intra and inter region.

**Thailand OTOP**

Inspired by the successful implementation of the Japanese concept in community development policy, known as One Village One Product (OVOP), many Asian, African and the Latin American countries have started adopting the program as such in their respective countries. China was the first nation outside Japan to adopt OVOP movement where in 1980, the city of Shanghai initiated a movement with a slogan ‘One Hamlet One Product’ OHOP. Similarly, in 2001, Thailand launched the One Tambon One Product (OTOP) program as a local entrepreneurship stimulus effort that supports the locally made products from each Thai tambon (subdistrict). OTOP is based on the idea that each village has at least one native product or tourism destination that can provide the basis for a small business.

To participate in OTOP, only one product can be submitted by each producer. The general criteria for the participation are: (i) the product is exportable and has a brand quality, (ii) production can be sustainable and with consistent quality, (iii) the product can provide customer satisfaction, and (iv) the product has an impressive background story. A rating system for OTOP products is followed, the highest being five stars as an inducement for the producer to continually improve their products.

As at 2010, there were a total of 85,183 items that were registered under OTOP products, of which decorative items, handicrafts and souvenirs accounted for 36.8%, textiles for 25.1%, foods for 23.9%, herbal products for 10.9% and beverages for 3.6%. These products are produce from the 36, 000 OTOP groups on the country.

**DATA AND RESEARCH METHODOLOGY**

**Data Collection**

The population of this research comprises of both foreign tourists visiting Thailand and the local tourists. Our argument for including both types of tourist is based on the study by Mesomboonponsuk (2011) that stated the target market of commodity products of community-based enterprises consists of the local customers (local tourist) as well as tourists. Based on the nature of the research, a convenience sampling was selected. We distributed six hundred questionnaires to major outlets that distribute OTOP products in the capital city of Thailand and elsewhere. This includes Thailand international airport and “OTOP City 2012 fair” which is the biggest consumer fair of OTOP products in Thailand The data collection process consists of enumerators asking questions to respondents face-to-face through a mall intercept. The main advantage of this method was that it helped the researcher to obtain complete and precise information (Zikmund, 2003). Item non-response was also less likely to occur. Data collection took place during the month of December 2012 within an 11 hours’ time frame (10:00 am till 9:00 pm).

Based on the laborious data collection effort, we received a feedback of 344 local respondents and 30 foreign tourists. The returned questionnaires were later carefully examined for completeness. Twenty (20) of those questionnaires from the local tourists were discarded because large sections of the questionnaires were incomplete. The total number of usable responses resulting from this process was finally 324 from the local tourists and 30
foreign tourist representing an effective response rate of 59 per cent. The response rate is quite good considering the busy atmosphere at the venue.

All of the measures were adopted or adapted from established scales. The measurement items brand image and consumer self-image was adopted from Aaker (1997). The evaluation of the self-image is measured by a five point likert scale (ranging from 5 = strongly agree to 1 = strongly disagree). As most of the locals speak only Thai, the questionnaire was translated to Thai language. To establish consistency in the meaning, a back-to-back translation was done. Before the major data collection, a pilot test was performed to ensure that appropriate scales, wording, as well as examining the understanding of the respondents.

**Data Analyses**

The descriptive statistics of the sample represents a typical descriptive of Thai tourists where male comprises of 39.8% and female at 60.2%. About 60% percent of the respondents had a bachelor’s degree and 23.7% has a postgraduate degree. 62% of the respondents is single with relatively good occupation. In terms of age, majority of the respondents is at 26-35 years of age (37%) followed by the 15-25 (23%), and the seniors of 46-55 years of age at 15%. With respect to monthly household income, 44% of the respondents earn a monthly income of less than 50,000 Thai Baht, 42% between 50,000 and 140,000 Thai Baht and the remaining representing the higher income bracket. Table 1 illustrates the descriptive characteristics of the respondents.

[Table 1 goes about here]

The subsequent paragraph elaborates how the measurements were assessed for their reliability, dimensionality and construct validity using established procedures. All the scales show good reliability with Cronbach’s alphas exceeding the recommended value of 0.70 as suggested by Nunnally (1978). As a point of comparison, the cronbach alpha scores reported by Sirgy et al., (1997) were between 0.82 to 0.90 for self-image congruence. Thus, the cronbach alpha scores reported here are very much in line with the previous studies. The results of the principal component analysis showed that all the proposed constructs and dimensions adopted in this study are universally distinct and unique. The results of the factor analysis for OTOP brand image reveals that it is being represented by three factors which are sincerity, emotion, and elegant. The traits associated with the first dimension of OTOP brand image is *Sincerity*; which represents OTOP products as practical, realistic, truthful, functional, and valuable. The second dimension of OTOP brand image is *Emotion*, which describes a variety of aspect of the product embracing enterprising, positive, creative, gifted, strong, nature, and lively. Finally, the third image of OTOP is *Elegant* that include traits such as high-quality, doing well, trustworthy, modern, and appealing. Table 2 describes the results of the factor analysis of OTOP brand image.

[Table 2 goes about here]

Subsequently, we conducted a similar factor analysis for the consumer self-image. The results showed that the construct is being represented by four factors that are competence, sincerity and reliability, excitement, and ruggedness. The traits associated with the first dimension of consumer self-image is *Competence* which symbolizes a person who is triumphant, superior, polite, clever, and advanced. The second factor is *Sincerity and Reliability* which represents a person who is truthful, hearty, sensible, dependable, and positive. The third personality is *Excitement*. This factor characterize the person as creative, brave, and energetic people.
Finally, the fourth self-image is **Ruggedness** which describe a person who are exterior and sturdy. Table 3 illustrates the results of the factor analysis for the consumer self-image.

[Table 3 goes about here]

Finally, to compare the OTOP brand image with the consumer self-image, it is notice that there are three factors which share similar traits. These traits are elegant, sincerity, and emotion of OTOP brand image that associate with competence, sincerity and reliability, and also excitement from the consumer self-image. The remaining of the consumer self-image personality of the user, ruggedness was found as incongruent with any traits of OTOP brand image. Upon further assessment, it was found that Elegant versus Competence was similar, sincerity versus Sincerity and Reliability as well as Emotion versus Excitement show little gap. This implies that the OTOP brand image is congruent with sincerity and Emotion. Therefore, OTOP brand manager should emphasize these traits or image in their brand. Table 4 illustrates the self-image congruency of the OTOP brand and consumer self-image.

[Table 4 goes about here]

**DISCUSSIONS AND CONCLUSIONS**

*Discussions*

To start with, our results showed that the OTOP brand has “multiple images”. Multiple images mean that the brand could appeal to different target groups on the grounds of the different images (Riezebos, 2003). For an effective brand manager; the core principle in developing, promoting, and positioning a brand should focus on enhancement of ‘brand image’ (Sarkar, and Singh, 2005). Consequently, this could be an advantage for OTOP brands as their products would be suitable to various target groups. OTOP would further needs to fit its product to the particular segments namely the elegant, sincerity and reliability, emotion and excitement, and also ruggedness.

Next, the results of our analysis showed the OTOP brand image in general is congruent with the consumer self-image. This is an important discovery considering that there has been no study yet looking at this community-based brand that represents Thailand growing economy. In addition, the uniqueness of the brand that represents multiple range of products and producers add to the significance of this study.

In today’s competitive business environment, the way a brand is positioned in terms of brand images is extremely important (Arnold, 1992). Brand managers can significantly improve the effectiveness of their brand positioning strategy by measuring the image of their brand and self-images of their target audience (Jamal and Goode, 2001). This can be done by developing advertising messages that could encourage consumers to think of their self-images. This is because advertising appeals that are congruent with viewers’ self-image are likely to be superior to incongruent appeals in terms of advertising effectiveness (Zingham and Hong, 1991).

*Summary and Conclusions*

This research makes contribution to the literature in a number of ways. First, it explores the early theories and research on self-concept in consumer behavior as they relate to image congruence. No prior research exists examining the image congruence relationship between a consumer’s self-concept and community-based branding. It also identifies the congruity
between the consumers self-image that would enable marketers to strategize the OTOP products effectively. Therefore, the brand manager’s task to persuade consumers to think about the fit between the self-images and the OTOP brand images is assisted with this findings. Finally, we wish to note a number of limitations of our study. While our measurement items were good, we believe a more sophisticated analysis could or should be carried out to determine the self-image congruency. In addition, further relationship of this self-image congruency should be tested such as customer satisfaction and loyalty.

REFERENCES

Arnold, D. 1992. The handbook of brand management, AddisonWesley, Reading MA.
**Table 1: Descriptive Characteristics of The Respondents.**

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<tr>
<th>Personal Background</th>
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<td>Female</td>
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<td>60.2</td>
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<td>Married but have no kids</td>
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<td>Married and have kids</td>
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### Nationality

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Table 2: Factor Analysis Results of OTOP Brand Image.

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<tr>
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<tr>
<td>Sincerity</td>
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</tr>
<tr>
<td>Practical &amp; down-to-earth</td>
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<tr>
<td>Honest</td>
<td></td>
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<td>Good &amp; useful</td>
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Table 3: Factor Analysis Results for the Consumer Self-Image.

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<th>Cronbach's Alpha</th>
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<td>Excitement</td>
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<td>Down-to-earth</td>
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<tr>
<td>Outdoor</td>
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<td></td>
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<tr>
<td>Ruggish and strong</td>
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Table 4: Self-Image Congruency of the OTOP Brand and Consumer Self-Image.

<table>
<thead>
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<th>OTOP personality</th>
<th>User Personality</th>
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<td>Competence</td>
</tr>
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<td>$(\bar{x} = 3.502)$</td>
</tr>
<tr>
<td>Traits</td>
<td>Traits</td>
</tr>
<tr>
<td>High-quality, doing well, trustworthy, modern, and appealing product</td>
<td>Triumphant, superior, polite, clever, and advanced people</td>
</tr>
<tr>
<td>21.264% Explained Personality</td>
<td>19.888% Explained Personality</td>
</tr>
<tr>
<td><strong>Sincerity</strong></td>
<td>Sincerity and Reliability</td>
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<tr>
<td>$(\bar{x} = 3.72)$</td>
<td>$(\bar{x} = 4.045)$</td>
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<tr>
<td>Traits</td>
<td>Traits</td>
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<tr>
<td>Practical, realistic, truthful, functional, and valuable product</td>
<td>Truthful, hearty, sensible, dependable, and positive people</td>
</tr>
<tr>
<td>15.792% Explained Personality</td>
<td>18.067% Explained Personality</td>
</tr>
<tr>
<td><strong>Emotion</strong></td>
<td>Excitement</td>
</tr>
<tr>
<td>$(\bar{x} = 3.42)$</td>
<td>$(\bar{x} = 3.881)$</td>
</tr>
<tr>
<td>Traits</td>
<td>Traits</td>
</tr>
<tr>
<td>Enterprising, positive, creative, gifted, strong, nature, and lively product</td>
<td>Creative, brave, and energetic people.</td>
</tr>
<tr>
<td>23.073% Explained Personality</td>
<td>13.333% Explained Personality</td>
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<td></td>
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<td>$(\bar{x} = 3.646)$</td>
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</tr>
<tr>
<td>Traits</td>
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</tr>
<tr>
<td>exterior and sturdy people</td>
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<tr>
<td>11.927% Explained Personality</td>
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<tr>
<td><strong>Total variance</strong></td>
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<tr>
<td>$= 60.128%$</td>
<td>$= 63.215%$</td>
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Abstract

Quality Assurance (QA) is about a planned and systematic approach taken to provide adequate evidence that the nature and characteristics of products and services will satisfy the quality requirements. Higher-Education Institutions (HEIs) means an institution of learning, which provides education leading to the award of a diploma, degree or the equivalent. Associated with this definition, this paper aims to explain the efforts and related issues associated with the development and implementation of ISO 9000 QA in HEIs, particularly in academic libraries. In Malaysia, a number of policies and strategies were introduced to transform the HEIs performance to become an infrastructure of future prosperity. The government introduced a policy so-called a rating system to preserve the quality of HEIs. Therefore, HEIs required to enhance their quality of services through an adoption and implement of QA model, such as as ISO 9000. Hence, the objectives of the study are to examine the nature of quality management practices (QMP), the influence of staff numbers towards the overall QMP and the differences of organization characteristics towards the nature of QMP. A total of 52 respondents was involved. An overall, the study found that an average of eight quality management practices (QMPs) is high (score = 6). The individual mean score for each QMPs also high – customer focus (5.95), leadership (5.87), people involvement (5.89), process approach (5.96), system approach (5.88), continuous improvement (5.87), information and data analysis (5.93), supplier relationship (5.88), and 5.90 for overall QMPs value. There was a difference in the numbers of staff influencing the nature of the overall QMPs, F value of 1.163 (p = .330). The study also found that there is no difference for organization type in influencing the nature of the overall QMPs with p< .05).

Keywords: Quality Assurance, Quality Management Practices, Higher Education, ISO 9000, MQA

Introduction

The history of higher education in Malaysia started around in 1950s. The establishment of University Malaya in 1959, indicated an initial landmark of the development of higher education in Malaysia (Morshidi Sirat 2010). Since then, the education industry has made rapid development and undergoing swift changes. Education is a strategic tool and play a significant role in the nation development, especially in the knowledge economy of the 21st century. Therefore, the quality of higher education became more critical in the face of globalization (Akeusola and Ofulue 2011). Thus, education is prelude stage towards achievement of Malaysia as a developed nation status. Hence, HEIs education should
strengthen and target more effectively its contribution to sustainable and mutually supportive human development. For that reason, the level of quality in education must be monitored and education definitely became a crucial factor in this development.

HEIs cover all, post-secondary educations leading to the award of certificates, diplomas and degrees (Wilkinson and Ishak Yussof 2005). It involves an interaction between external, as well as internal factors around them. According to Sen (2008), external factors such as the existing political, economic, cultural and social systems play an important role in higher-education institution's development. Meanwhile for internal interacting systems, HEIs should be composed of physical and virtual environments, as well as a social environment. A physical learning environment is needed to obtain information and the library, as the knowledge hub of higher education should be centrally located for information gathering (Gersberg and Nenonen 2007).

Library is the heart of the academic setup (Tayabas 1983; Arora 2008). Library as a center stage is also vis-a-vis the functions of the university teaching, research and extension. No academic development will occur out of teaching, research, and extension, whether collectively or individually, without the all-important support from the library. In order to meet these requirements, library should have to search the tips how to be a competitive organization in terms of library management. For example, in the Tenth Malaysian Plan (2011-2015), Malaysia targeted to achieve 1,610,409 number of students in higher education. Thus, academic library's roles should be meaningful. They not only focus on quality of service, but also their ability to move forward and adapt to the changing needs and expectations of customers.

Hazman Shah (1983) claimed that certification of ISO 9001 is one of the ways to project the quality of organization offering. ISO 9001 is a system which is contributed to provide a guarantee with confidence and certainly, that the standard and quality of organizational product or service provision are being maintained and enhanced. ISO 9001 became a quality control tool, as well as a solution in the meeting of customer's expectation and requirements. In case of Malaysia, the certification of ISO 9001:2008 will benefit the HEIs in the terms of fulfill the requirements set by the Malaysian Qualification Agency (MQA). However, there still a number of issues arise from the kinds of approaches adopted to assure quality in HEIs, including in Malaysia. Therefore, an empirical study should be done with focusing on the issues of quality related to the role ISO 9001 quality assurance and quality practices in the pursuit of higher-education programmes, in particular, the effect of its effectiveness in Malaysia using academic libraries as an empirical study.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

ISO 9001- Quality Assurance and Library Quality of Services

Achieving the best quality in services is an ultimate goal of every academic library. However, how the library efforts to achieve the best library performance is more important. Traditionally, library performance measured such as a number of collections, numbers of users and material variations, but now, it was measured in terms of customer perception and expectation (S.Pedramnia, Modiramani et al. 2012). In a broad view, Balaque and Saarti (2009) find that in a service era, management not only focuses on quality of service but also on the ability to move forward and adapt to the changing needs and expectations of customers. Thus, the quality management approach has gained an earmark in the libraries. At present, many university libraries in Malaysia are keen on obtaining the MS ISO 9001: 2000
certification (requirements for quality management system (QMS)) to exhibit the library’s commitment to quality.

ISO 9001 is family of standards; it is related to quality management systems (QMS) and designed to help organizations ensure that they meet the needs of customers and other stakeholders. A part of ISO 9001- QMS is quality assurance, which is defined as a set of activities intended to establish confidence that quality requirements will be met. A consistent pair of ISO 9001 is ISO 9004 – Quality Management Principles. The role of ISO 9001 standard is to provide confidence, product or service conformance to established requirements; ISO 9004 goes beyond this and talks about meeting the needs of all stakeholders groups through sustained customer satisfaction.

In libraries, happy customers may not translate into direct profit, but they do mean a highly regarded and valued library service (Nejati and Nejati 2008). According to them, the quality of library service can be seen as relating to the fitness of a service to its intended purpose or use, subject to the expectations of the customer or user. Meanwhile, Dabas (2008) suggested 3As to define quality in libraries - (i) accessibility (building and equipment and staff) which are including the ease, convenience, comfort, excitement and interest in using the printed, electronic and online information resources; (ii) availability – it implies physical availability of all the resources of the libraries, and (iii) applicability – accessibility and availability of library resources enhance applicability of resources.

According to Lawrence (2000), the quality management is the aspect of the overall management function that determines and implements the quality policy. It requires the commitment of top management, including strategic planning, allocation of resources and other systematic activities for quality such as quality planning, operations and evaluations. Therefore, quality management consists of four main constructs - quality planning, quality control, quality assurance and quality improvement whereby focusing not only on product/service quality, but also how to achieve it. So, quality management uses quality assurance and control of processes to achieve consistent quality. This concept is also known as Quality Management Practices (QMPs).

Meanwhile, according to Hull (1991), TQM is a comprehensive management system for achieving continuous improvement in customer satisfaction; It uses quantitative methods to continuously improve an organization’s processes; a powerful new approach to help management refocus its priorities towards customer and produce superior quality products and services. Various terminologies also have been used to describe the general concept of TQM. These include “total quality control," “total quality leadership," “total quality improvement program," “continuous quality improvement," and “total quality service." Thus, it is clear that the TQM model is a similar banner, compatible and complementary with models like ISO 9000. Whether the TQM or ISO 9000, the organization is working in some way on improving leadership, management people, customer focus, use of information and analysis, process improvement and strategic and quality planning quality management principles.

Kaur (2007) found, ISO 9000 benefits the library in terms of cultural changes and attitudinal shift the staff members toward business-oriented values. Praditteera (2007) found 14 benefits of ISO 9000 in academic libraries in Thailand - Enhanced accountability of parent institution; good image and better practice improve library services; improved library management control; it enhanced continuing quality management, increased operational efficiency and
productivity; improved documentation; increase in perceived quality of library services by customers; increased library customer satisfaction, reduced operating costs; improved management of library resources, improved library staff morale and attitudes; improved effectiveness in teamwork; better understanding among library staff, and improved library customers management of library personnel. Meanwhile, the study by Balaque and Saarti (Balaque and Saarti 2009) claimed that ISO 9001 became a guidance for library toward develop their quality management.

ISO 9001:2000 insist on the requirements of the quality system. Its just guidelines how the organization can manage the quality internally, as well as externally. Obeying to the ISO 9001 quality system in library setting, quality issues and benefits gained by its implementation. This article focuses on how ISO 9001:2000 quality assurance reflect on the quality practices in academic libraries in Malaysia.

**Research Question**

This empirical study of the higher education quality assurance seeks to answer three questions:

i. To identify the nature of quality management practices in academic libraries in Malaysia.

ii. To investigate at what extent the differences exist between the numbers of staff and the overall quality management practices in academic libraries in Malaysia.

iii. To investigate to what extent the differences exist between types of organization and the overall quality management practices in academic libraries in Malaysia.

**Research Hypotheses**

H1 : Libraries from difference numbers of staff differ regarding the level of quality management practices.

H2 : Difference types of libraries differ regarding the level of quality management practices.

**Methodology**

**Survey Design and Sample**

This empirical study compares the status of ISO 9001:2000 implementation towards quality management practices in several types of academic libraries. In general, two typically differences library category – public library and private library. The measurement is based on the survey method. The developed questionnaire consisted of eight constructs of quality management practice. For each construct, close-ended and multiple-choice type questions were applied. Three to eight statements were used for the constructs based on a seven-point Likert scale response. Value 1 indicated that the statement is very low and number 7 indicated very high score. Samples were chosen from public higher-education institutes. A total of 106 questionnaires was sent out, and 75 respondents were returned.

**Measures**

Referring on the previous literatures, the developed questionnaire with consisting of eight of conceptualize constructs were established. (1) **Customer Focus** - conceptualized by commitment to satisfy customers, integration of customer satisfaction, knowledge of customer needs and expectations, usage of customer feedback, monitoring customer satisfaction, responsiveness to customer complaints and the interaction with customers; (2) **Leadership** - conceptualized by understanding the needs, clear vision, target setting, convincing and avoid curiousness; (3) **Staff Involvement** - conceptualized by staff
involvement, continuous training empowerment, sharing and conducive environment; (4) **Process Approach** - organization output is made up of a series of interacting processes; it’s involved a set of activities that use resources (people, machines, etc.) to transform inputs into outputs; (5) **System approach** - the activities of identifying, understanding and managing interrelated processes in a system way. This approach will lead the organization's for more effective and efficient in achieving its objectives; (6) **Continuous Improvement** - ongoing improvement involving everyone (top management, managers, workers) and everything (process, method, tools, data and system). Thus, the organization’s overall performance will be a permanent objective of the organization; (7) **Information and Data analysis** - the information and analysis construct are conceptualized by the availability of data, timeliness of data and usage of data, and (8) **Supplier partnership** - is conceptualized by the good supplier-organization relationship, supplier selection criteria, exchange of information, and supplier development.

**Results AND DISCUSSION**

**Realibility Tests**

The questionnaire internal consistency being tested by reliability coefficient. The main concept of reliability analysis revolving on internal consistency, and it can be seen by examining whether the items and the subsets of the items are highly correlated. As such, in this research, internal consistency reliability test is achieved using Cronbach’s Alpha. The Cronbach’s alpha was used as an empirical measurement. Reliability measurement concerns about the extent which measurements are repeatable when different persons make the measurements on the different occasions. Higher values indicate higher reliability. According to George and Mallery (2003), the rule of the thumb of the questionnaires can be assumed to reliable when its alpha value is at 0.7341. Sekaran (2003) suggested that the closer the alpha to 1.00, the greater the consistency of variables in the instrument. Meanwhile, Nunally (1978) recommends a minimum level of 0.7. Reliability analysis is important to assure the measures are free from errors in order to yield the consistent results over time and across situations (Zikmud 2003). The reliability as a measure refers to its consistency, and it has often taken to entail two separate aspects: external and internal reliability (Bryman and Cramer 2001). The reliability values for this study was performed separately for each constructs.

**Table 1 : Reliability analysis for variable's measures**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Items / Construct</th>
<th>Alpha Cronbach value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Variable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer Focus</td>
<td>6</td>
<td>.912</td>
</tr>
<tr>
<td>Leadership</td>
<td>8</td>
<td>.953</td>
</tr>
<tr>
<td>Staff Involvement</td>
<td>6</td>
<td>.918</td>
</tr>
<tr>
<td>Process Approach</td>
<td>5</td>
<td>.963</td>
</tr>
<tr>
<td>System approach</td>
<td>5</td>
<td>.953</td>
</tr>
<tr>
<td>Continuous Improvement</td>
<td>5</td>
<td>.946</td>
</tr>
<tr>
<td>Information and Data Analysis</td>
<td>3</td>
<td>.943</td>
</tr>
<tr>
<td>Supplier Partnership</td>
<td>6</td>
<td>.933</td>
</tr>
<tr>
<td>Aggregate Value</td>
<td>8</td>
<td>.947</td>
</tr>
</tbody>
</table>

Referring to the table, the values of Cronbach’s alpha corresponding to each constructs have been greater than 0.7, which is above the minimum recommended value. This study
concludes that the survey instrument (questionnaire) is adequately reliable and valid. Thus, it is feasible for further analysis.

**Respondents Background**

The totals of 75 academic libraries were selected. Out of them, 38 (51%) is public academic libraries and 37 (49%) is public libraries. Table 2 provides the details of the classification of the academic libraries. It is seen that out of 75 academic libraries, 20 (26.7%) were from public university libraries, 16 (21.3%) were from public education institute libraries, the rest as displayed in the table.

**Table 2: Categories of Academic Library**

<table>
<thead>
<tr>
<th>Library Categories</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public University</td>
<td>20</td>
<td>26.7</td>
</tr>
<tr>
<td>Public Education Institution</td>
<td>16</td>
<td>21.3</td>
</tr>
<tr>
<td>Private University</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Private College</td>
<td>14</td>
<td>18.7</td>
</tr>
<tr>
<td>Non-Private University</td>
<td>5</td>
<td>6.7</td>
</tr>
<tr>
<td>Public College</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Private University (Local Branch)</td>
<td>1</td>
<td>1.3</td>
</tr>
<tr>
<td>Private University (International Branch)</td>
<td>1</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>75</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Table 3 below displays the head of the library. It seemed that librarian became the majority of respondents (20 or 26.7%), followed by the chief director (14=18.7%). Director, Senior Officer, Quality Manager or Deputy Director becomes the minority of the library head.

**Table 3: Academic Library Quality Assurance Representative**

<table>
<thead>
<tr>
<th>Representative</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Librarian</td>
<td>20</td>
<td>26.7</td>
</tr>
<tr>
<td>Chief Librarian</td>
<td>14</td>
<td>18.7</td>
</tr>
<tr>
<td>Librarian Head</td>
<td>10</td>
<td>13.3</td>
</tr>
<tr>
<td>Resource Center Head</td>
<td>7</td>
<td>9.3</td>
</tr>
<tr>
<td>Deputy Chief Librarian</td>
<td>7</td>
<td>9.3</td>
</tr>
<tr>
<td>Executive</td>
<td>6</td>
<td>8.0</td>
</tr>
<tr>
<td>Director</td>
<td>3</td>
<td>4.0</td>
</tr>
<tr>
<td>Library Officer</td>
<td>2</td>
<td>2.7</td>
</tr>
<tr>
<td>Manager</td>
<td>2</td>
<td>2.7</td>
</tr>
<tr>
<td>Director</td>
<td>1</td>
<td>1.3</td>
</tr>
<tr>
<td>Senior Officer</td>
<td>1</td>
<td>1.3</td>
</tr>
<tr>
<td>Quality Manager</td>
<td>1</td>
<td>1.3</td>
</tr>
<tr>
<td>Deputy Director</td>
<td>1</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>75</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

The size of the academic libraries measured by the numbers of library staff. Nearly 57% of the respondents in the study are from the library less than 10 staffs. The number of staff from 10 to 30 is 16 (21%); 31 to 50 are 6 (8%), and more than 50 staffs are 10 (13%) libraries. Meanwhile For the numbers of users, 26 (35%) academic libraries have 1001 to 5000 users; 19 libraries have their users more than 5000, 17 (23%) libraries have less than 500 to 1000 users and eleven libraries less than 500 users. For the length ISO adoption, 21 (21) academic
libraries already adopted ISO 9001 as their quality system from 1 to 3 years, 22 (29%) from 4 to 6 years, 5 libraries applied ISO 9001 for about 7 to 10 years and only two libraries had been applying ISO 9000 for more than 10 years.

Normality Test

SPSS provides several methods how to check data normality. In this study, the normality checked through skewness and kurtosis values. Both are referred to the shape of distribution. Values for skewness and kurtosis are zero if the data distribution is exactly normal. In the table, the values for skewness and kurtosis are zero if the data distribution is exactly normal. In the table, the values for skewness and kurtosis are positive. The table describes the data is little bit skew to the right side, and it is also a peak. Since the value skewness and kurtosis is less than 1.0, the data is distribution is normal.

Table 4 : Descriptive Statistics

<table>
<thead>
<tr>
<th>Construct</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Skewness</th>
<th>Std. Error</th>
<th>Kurtosis</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>TotCf</td>
<td>75</td>
<td>4.00</td>
<td>7.00</td>
<td>5.95</td>
<td>.763</td>
<td>-.518</td>
<td>.277</td>
<td>.069</td>
<td>.548</td>
</tr>
<tr>
<td>TotLead</td>
<td>75</td>
<td>4.00</td>
<td>7.00</td>
<td>5.87</td>
<td>.893</td>
<td>-.278</td>
<td>.277</td>
<td>-.833</td>
<td>.548</td>
</tr>
<tr>
<td>TotPkt</td>
<td>75</td>
<td>4.00</td>
<td>7.00</td>
<td>5.89</td>
<td>.781</td>
<td>-.225</td>
<td>.277</td>
<td>-.473</td>
<td>.548</td>
</tr>
<tr>
<td>TotPp</td>
<td>75</td>
<td>4.00</td>
<td>7.00</td>
<td>5.96</td>
<td>.813</td>
<td>-.236</td>
<td>.277</td>
<td>-.738</td>
<td>.548</td>
</tr>
<tr>
<td>TotPs</td>
<td>75</td>
<td>4.00</td>
<td>7.00</td>
<td>5.88</td>
<td>.900</td>
<td>-.215</td>
<td>.277</td>
<td>-.927</td>
<td>.548</td>
</tr>
<tr>
<td>TotPb</td>
<td>75</td>
<td>4.00</td>
<td>7.00</td>
<td>5.87</td>
<td>.859</td>
<td>-.261</td>
<td>.277</td>
<td>-.661</td>
<td>.548</td>
</tr>
<tr>
<td>TotPkbf</td>
<td>74</td>
<td>4.00</td>
<td>7.00</td>
<td>5.93</td>
<td>.881</td>
<td>-.237</td>
<td>.279</td>
<td>-.947</td>
<td>.552</td>
</tr>
<tr>
<td>TotFbop</td>
<td>75</td>
<td>3.50</td>
<td>7.00</td>
<td>5.88</td>
<td>.838</td>
<td>-.406</td>
<td>.277</td>
<td>-.186</td>
<td>.548</td>
</tr>
<tr>
<td>TotAve</td>
<td>75</td>
<td>4.29</td>
<td>7.00</td>
<td>5.90</td>
<td>.726</td>
<td>-.195</td>
<td>.277</td>
<td>-.891</td>
<td>.548</td>
</tr>
</tbody>
</table>

Findings

Objective 1 : What is the nature of quality management practices.

The output presented in Table 5, labeled Mean and Standard Deviation provides the information to answer this objective. It gives the mean value of all the items (8 constructs) or for all the constructs were used to measure the first objective. It seems an overall the nature of quality management practices in HEIs academic libraries is at 5.9 level. It shows quality management practices in academic libraries is very high. Meanwhile, for the individual score, QMPs for dimension customer focus and process approach become the highest, 5.95 and 5.96 respectively. The moderately low of QMPs are leadership (5.87), people invilvement (5.89), system approach and supplier relationship are (5.88), and continuous improvement is 5.87.

Table 5 : Mean and Standard Deviation

<table>
<thead>
<tr>
<th>Variable</th>
<th>No. of Items / Constructs</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Focus (1)</td>
<td>6</td>
<td>5.95</td>
<td>.76</td>
</tr>
<tr>
<td>Leadership (2)</td>
<td>8</td>
<td>5.87</td>
<td>.89</td>
</tr>
<tr>
<td>People Involvement (3)</td>
<td>6</td>
<td>5.89</td>
<td>.78</td>
</tr>
<tr>
<td>Process Approach (4)</td>
<td>5</td>
<td>5.96</td>
<td>.81</td>
</tr>
<tr>
<td>System Approach (5)</td>
<td>5</td>
<td>5.88</td>
<td>.90</td>
</tr>
<tr>
<td>Continuous Improvement (6)</td>
<td>5</td>
<td>5.87</td>
<td>.86</td>
</tr>
<tr>
<td>Information and Data Analysis (7)</td>
<td>3</td>
<td>5.93</td>
<td>.88</td>
</tr>
</tbody>
</table>
Objective 2: To investigate at what extent the differences exist between the numbers of staff and the overall quality management practices in academic libraries in Malaysia.

This objective is related to hypothesis 1 (H1) - libraries from difference numbers of staff differ regarding the level of quality management practices.

This objective aims to determine whether differences existed between the mean responses of each sample group on the QMPs. It was tested by using an analysis of variance (ANOVA) statistical. One-way analysis of variance (ANOVA) was used in comparing the mean scores of more than two groups. For objective 2, the independent variable is the differences in the numbers of academic library staff (four level). The dependent variable is scores on QMPs). This statistical technique was introduced by R.A. Fisher in the 1920s, and the basic component is the sum square. In one-way ANOVA, the data was sub-divided into groups based (numbers of staff) on a single classification factor (Average of Overall QMP Level) is concerned to test the mean of relationship between more than two variables in the independent variable with one dependent variable. We are testing the null hypothesis, whereby there are no significant differences between the groups’ mean scores (Ho) and there is a significant difference between the groups' mean scores (Ha).

One-way analysis of variance (ANOVA) was used to test if differences existed between the numbers of library staff and quality management practices. We divided the group into four groups – staff less than 10 person, 10 to 30 person, 31 to 50 person and more than 50 person. From SPSS output, the prior step to ensure that the homogeneity assumption is met. Levene’s test for homogeneity of variances is not significant (p > .05) (Coakes and Steed 2003), thus we conclude the population variances for each group are approximately equal.

There were no significant differences between the two groups (numbers of staff and quality management practices). The analysis yielded an F value of 1.163 (p = .330) as reported in Table 6. Since the p value is .330, the test statistic is not significant at $\alpha = 0.05$. We conclude that there is a difference in the numbers of staff influencing the nature of the overall quality management practices.

<table>
<thead>
<tr>
<th>Table 6: ANOVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum of Squares</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Between Groups</td>
</tr>
<tr>
<td>Within Groups</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Objective 3: To investigate to what extent the differences exist between types of organization and the overall quality management practices in academic libraries in Malaysia.

The above objective 3 is related to the hypothesis H2 - difference type of libraries differs regarding the level of quality management practices. Its involves the comparison between two groups, namely IPTA (Higher-Education Education Public Library) libraries –and IPTS
(Higher-Education Education Private Library) libraries. The mean values of the two groups and the t-test results are shown in Table 7 below.

Since the p-value was smaller than the specified significance level of (p<.05) 5 percent, thus the difference between the means is significant. The null hypothesis is rejected. Therefore, the output indicates that there is a significant difference in the level QMPs between IPTA and IPTS. It is enough reject for H2 since the t-test result show a significant difference between type of academic libraries regarding the level of quality management practices.

Table 7 : One-Sample Test

<table>
<thead>
<tr>
<th>Library Type</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
<th>Mean Difference</th>
<th>95% Confidence Interval of the Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Library Type</td>
<td>25.695</td>
<td>74</td>
<td>.000</td>
<td>149.333</td>
<td>137.75 - 160.91</td>
</tr>
<tr>
<td>TotAve</td>
<td>70.393</td>
<td>74</td>
<td>.000</td>
<td>5.90214</td>
<td>5.7351 - 6.0692</td>
</tr>
</tbody>
</table>

**Conclusion and Recommendation**

The study explores the general status of the Quality Management Practices in public and private higher-education institutions in Malaysia. This study considers a good step to evaluate the status of quality practices towards higher quality assurance in Malaysia is an implementation of quality management principles. The quality of higher-education services gets serious intention by the government. Currently, the quality assurance of higher education is controlled by the Quality Assurance Agency of Higher Education, well-known as Malaysia Qualification Agency (MQA). Established in 2007, the main role is to implement the Malaysian Qualification Framework (MQF) as a basis for quality assurance of Higher Education and as a reference point for the criteria and standard for national qualification. In short, the MQF is Malaysia's declaration about its qualifications and their quality relation to its education system.

Since the study evaluates the basis status of public higher-quality achievement, particularly in a certain quality management practice area, further study should be performed to evaluate the overall status of quality assurance in public and private higher education. It is also important as a measurement of an effectiveness of the implementation of MQF. The further study also should perform as the benchmark process to evaluate after a five-year period of MQF establishment.

**References**


Community-Based Contextual Approach: Lessons from Teaching Gender in Higher Education Level

Abstract

This study aimed to explore the effects of a community-based contextual learning model on the students’ comprehension level. By applying an action research method, this study tested the students’ comprehension level and their capability’s aspects in two cycles. The observation was done in 42-observed fields for 12 weeks. The results revealed that there was an increase of students’ comprehension, from 17% in pre-class action phase to 63% in post-class action one. The contextual teaching model had also improved significantly the students’ capabilities, from 21% in pre-class action phase to 66% after the class action one. The empirical findings implied the further implementation of contextual-based learning to improve students’ performance as well as teaching quality.

Keywords: contextual-based learning, gender, students’ performance, teaching quality

INTRODUCTION

The Gender Anthropology course is one of the obligatory courses in the Indonesia’s higher-education curricula for faculty of education’s students, which is normally given in the third semester. This course provides basic anthropological understanding on gender and the social phenomenon occurring within the community. Prior observations revealed that students generally considered this course as easy teaching material and perceived it as an unimportant course (Kuntowijoyo, 2002), which led to students’ poor performance. Some researchers believed that this perception was influenced by the teaching methods, which were not attractive, out-of-date discussion issues, and not related to daily experience (Wineburg, 2004; Aslam & Kingdon, 2007; Goe, 2007). Therefore, it is a need to implement a new learning model to create better comprehension on gender and effective teaching method.

The need of new learning method is mainly related to some important issues, such as (1) what is the best way to convey the many concepts that are taught in a particular course so that all students can use and retain that information? (2) How can the individual lessons be understood as interconnected pieces that build upon each other? And (3) how can a teacher communicate effectively with students who wonder about the reason for, the meaning of, and the relevance of what they study? All those questions are the teachers or lecturers’ main concern to open the minds of a diverse student population, so they can learn concepts and techniques that will open doors of opportunity for them throughout their lives. These are the challenges that teachers face every day. The challenges that a curriculum and an instructional approach based on contextual learning can help them face successfully.
In case of gender anthropology course, the majority of students are unable to make connections between what they are learning and how that knowledge will be used. Some studies reported that the traditional methods of classroom teaching are unsuitable anymore to support the students’ process information and their motivation for learning (Estes, 2004; Iyoshi, Hannafin & Wang, 2005; Kember, 2009). The students admit that they have a difficult time understanding academic concepts (such as science concepts) as they are commonly taught (that is, using an abstract, lecture method), meanwhile they urgently need to comprehend the concepts as they relate to the workplace and to the larger society in which they will live and work. Traditionally, students have been expected to make these connections on their outside environment of the classroom.

To overcome this matter, a student-centered learning environment is a suggested alternative, which provides students the opportunity to explore their own learning styles (Morgan, 2002; Keri, 2002). In that respect, successful learning also occurs when learners are fully engaged in the active learning process, and teachers cater content to specific learning needs. Prior studies reported that most students learned much more efficiently when they were allowed to work cooperatively with other students in groups or teams (Pedersen, & Liu, 2003; Pedersen & Williams, 2004; Estes, 2004). Context-based learning is widely accepted as a potential approach of teaching and learning. However, it requires a wider subject-related knowledge and different activities of both, students and teachers/lecturers.

This study will experiment with a class action research (Stringer, 2004), to assess the implementation of contextual teaching and learning model, which is proposed by Kemmis and McTaggart (2005). This study contributes in determining the main aspects of contextual learning on gender effectively, which are believed it can increase the students required understanding for complex concepts and lifelong learning.

This research will be different from prior studies due to it will implement the action research approach in the non-science course, which previously often examined the contextual-based approach in science courses in western countries. In the context of emerging countries, the applications of action research are relatively rare, due to the limited infrastructures, culture, and traditional teaching and learning approach. This research will expand and enrich the empirical findings of action research within Asian cultures, urban regions, and emerging country’s context. Specifically, this research will explore the students and lecturers’ collaborative experiences of implementing theory-based evidence-supported changes to enhance their process of incorporating experiential learning activities into principles of gender anthropology. It is important since most of the gender anthropology’s textbooks are in the western countries’ context, which have different perspectives and experiences from the Asian cultures, norms, and values.

To present the empirical findings, the paper is organized as follows. The literature review and prior studies on contextual-based teaching and learning and using class action research to measure the effectiveness of contextual-based learning are briefly outlined in Section 2. The methodology and research model is described in Section 3, followed by the research results and discussion in Section 4. We provide some concluding remarks in Section 5.

**LITERATURE REVIEW**

Since prior studies reported that traditional classroom learning did not encourage critical-thinking skills, particularly the ability to actively apply information gained through
experience and reasoning, there were many efforts dedicated to find new methods in teaching and learning. It was triggered by the fact that conventional training emphasized the role of teachers as knowledge dispensers and students as repositories. This style of learning does not allow students to achieve the deeper levels of understanding required for complex concepts and lifelong learning. Therefore, a contextual-based teaching and learning become an alternative to handle the problem.

**Contextual-based teaching and learning**

Contextual learning, as one of the most studied research in cognitive science, is a proven concept that incorporates and recognizes learning as a complex and multifaceted process that goes far beyond drill-oriented, stimulus-and-response methodologies. It is also a response to the essentially behaviorist theories that have dominated higher-education institutions for many decades. Prior studies revealed that the context-based learning was not only widely accepted as a promising teaching and learning approach, but it has also been implemented into many higher-education systems in different countries (ACS, 1993; Pilling, Holman & Waddington, 2001; Parchmann, Graesel, Baer, Nentwig, Demuth, & Ralle, 2006; Pilot & Bulte, 2006).

Differed from the traditional approach, in the contextual learning theory, learning process occurs only when students (learners) develop new information or knowledge in such a way that it makes sense to them in their own frames of reference (their own inner worlds of memory, experience, and response). This approach to learning and teaching assumes the mind naturally seeks meaning in context. It will relate to the person's current environment, and it does so by searching for relationships that make sense and appear useful. At university level, education is concerned with a holistic development of the learner in the cognitive, personal and affective domains. University graduates are expected to be competent not only in their respective disciplines, but also as an independent life-long learner.

Therefore, in the contextual learning theory, the focus is on the multiple aspects of any learning environment, whether a classroom, a laboratory, a computer lab, a work site, or a paddy field. In the other words, it encourages educators to choose and/or design learning environments that incorporate as many different forms of experience as possible (social, cultural, physical, and psychological) in working toward the desired learning outcomes. At the university level, it involves a clear understanding of the concepts and principles of the approach, with due consideration given to the actual teaching and learning context which may necessitate appropriate modifications and adaptations.

In such an environment, students discover meaningful relationships between abstract ideas and practical applications in the context of the real world; concepts are internalized through the process of discovering, reinforcing, and relating. For example, a physics class studying thermal conductivity might measure how the quality and amount of building insulation material affect the amount of energy required to keep the building heated or cooled. Alternatively, a biology or chemistry class might learn basic scientific concepts by studying the spread of AIDS or the ways in which farmers suffer from and contribute to environmental degradation.

**Measuring the contextual-based teaching and learning environment**

To measure whether the teaching and learning process is adopting a contextualized approach or not, there are several questions should be answered: (1) Are new concepts presented in real-life (outside the classroom) situations and experiences that are familiar to the student?
(2) Are concepts in examples and student exercises presented within the context of their use?
(3) Do examples and student exercises include many real, believable problem-solving situations that students can recognize as being important to their current or possible future lives? (4) Do students gather and analyze their own data as they are guided in discovery of the influential concepts? (5) Do lessons and activities encourage the student to apply concepts and information in useful contexts, projecting the student into imagined futures (e.g., possible careers) and unfamiliar locations (e.g., workplaces)? And (6) Are students expected to participate regularly in interactive groups that share, communicate, and respond to the important concepts and decision-making occur?

Based on those questions, we constructed five indicators of students’ understanding on gender anthropology, i.e. translating the basic concept of gender by using the students’ own words, interpreting the concept through finding analysis, estimating the impact on the results through a community-based analysis, and building new concepts of gender on community, especially to examine the women-related cases. To measure the students learning outcomes, we used essay tests as one of the portfolio assessments.

To facilitate the measurement, in this study, we employed the classroom action research since it was directed to develop a strategy in order to solve the classroom problems and to find out the most suitable method in the teaching of gender anthropology. Classroom Action Research (CAR) is systematic examination with the goal of informing practice in a particular situation. CAR provides a way for instructors to discover what works best in their own classroom situation, thus allowing informed decisions about teaching. CAR occupies a midpoint on a continuum ranging from teacher reflection at one end to traditional educational research on the other. Action researchers will often collect data from several sources to strengthen their analysis and conclusions. In our research, we used multiple data sources, termed triangulation, which can also include surveys, student grades, homework completion, and instruments measuring student motivation.

Basically, action research is not about hypothesis testing and producing empirically generalized results. Moreover, it is consistent with the fundamental philosophy of teaching and learning that lies on the systematic reflection on teaching and learning as the public own thing. The action research model, which is illustrated in Figure 1, shows the process as iterative or cyclical in nature involving multiple phases. The first cycle moves through the major steps of planning, action, observation and reflection, which are then used to revise the process in the next cycle (Kemmis and McTaggart, 1990). According to Winter and Munn-Giddings (2001), the iterative action research cycle starts with faculty (and possibly students) deciding on the focus on the inquiry and creating a plan to observe and record their classroom activities (Plan). The classroom activities are afterwards implemented (Action), and pertinent observations are recorded (Observe) which are then individually and collaboratively critically reflected upon (Reflect) leading to revising classroom activities based on what has been learned (Revised Plan).

The observation and reflection stages should incorporate, and be based on, widely used quantitative and qualitative research tools used in other research paradigms such as: questionnaires, interviews, focus groups, observations, research journals, document collection, and case studies. In addition, the evaluation as the process should incorporate multiple perspectives and present convergent validity. The action research process described throughout this paper incorporates traditional outcome assessment where students produce
some end product (projects, papers, presentations, exams, etc.), as well as, faculty and students’ perspectives of the impact the learning activity had on the learning process.

![Action Research Process](image)

**Figure 1: Action Research Process**  
*Source: Adopted from Hopkins (1985)*

## METHODOLOGY

This study employed a classroom action research, which focused on a particular group of students in a certain classroom as an experiment project. We used two cycles, which were four months for each cycle and done from August to November 2010. In the first cycle, we allowed the students to choose their field-observation locations and assigned each student to adjust the chosen locations according to the learned materials in the syllabus. It took six weeks for cycle 1, and the students should make a bi-weekly report for their observation. Before the students started their field observation phase, the researchers did a pre-test to measure the students’ comprehension level. It aimed at measuring the students’ introductory comprehension on gender anthropology based on textbooks or other information they have at the pre-action research level.

Every alternate-week the students should present their report on their findings. It became a critical moment to evaluate how each student observed, analyzed and made a synthesis based on their experience. At this phase, the researcher made an evaluation on the students’ performance referred to certain indicators, i.e. the learning process’ effectiveness, the dynamic interaction between the students and lecturers, their active participation, cohesiveness with others, motivation, and enthusiasm during the learning process.

In the cycle 2, it allowed the process of observing student learning and evaluating and reflecting upon the outcomes to be revised and improved upon. Thus, the second iteration of the action research cycle/experiential learning venture focused on restructuring the project in several ways, one of which was to enhance the data gathering and analyzing aspects of the observed community. In the alternate cycle’s measurement stage, the researcher focused on five goal areas that the students could assimilate and incorporate in their learning habits. Those goals are the ability of translating the textbook’s concepts in their own words, the ability of finding and detecting the potential and real problem, the ability of interpreting the observed findings analytically and logically, the ability of applying the concepts to solve the problems, and the ability of building new concepts based upon their observation findings in the society.
At the end of cycle 2, the researchers evaluated the progress and documented the students’ improvement on those five goals. A final report was submitted to the dean of faculty of education and the chancellor for their considered information in making decision on the curricula revision.

Research Location
The field observation is located in Medan, the North Sumatera province’s capital. It is the fourth-largest city in Indonesia (behind Jakarta, Surabaya, and Bandung), and the largest Indonesian city outside Java. Medan is divided into 21 districts and 151 sub-districts. The city has varied communities, reflecting its history. According to BPS (2010), the ethnic compositions in Medan until 2010 are: Javanese (33.03%), Batak (18.79%), Chinese (10.65), Mandailing (9.36%), Minangkabau (8.6%), Malay (6.59%), Karo (4.10%), Aceh (2.78%), Sundanese (2.15%), Tamil (2.95%), and others (1%). Therefore, this city is really suitable to learn about gender anthropology based on ethnics’ diverse perspectives. The researchers let the 42-students choose their studied communities between 151 sub-districts available in Medan, as long as it has minimum three different ethnics within. Consequently, there are 42 observed locations.

RESULTS AND DISCUSSION
Table 1 shows us that the students’ good comprehension level on gender anthropology was relatively low, which was in average of 17%, before the action research done. In this cycle, the researcher previously planned some learning materials, which were adjusted to the syllabus, to be observed directly in the field project by the students.

<table>
<thead>
<tr>
<th>Indicators of Actions</th>
<th>Students’ Good Comprehension Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before Action</td>
</tr>
<tr>
<td>The initial phase:</td>
<td></td>
</tr>
<tr>
<td>The students’ mental preparedness</td>
<td>25%</td>
</tr>
<tr>
<td>The students’ learning material completeness</td>
<td>20%</td>
</tr>
<tr>
<td>The students’ conditioned-learning process</td>
<td>15%</td>
</tr>
<tr>
<td>Average</td>
<td>20%</td>
</tr>
<tr>
<td>The core stage:</td>
<td></td>
</tr>
<tr>
<td>The learning effectiveness</td>
<td>20%</td>
</tr>
<tr>
<td>The dynamic interaction of teaching and learning</td>
<td>20%</td>
</tr>
<tr>
<td>The students’ participation in learning process</td>
<td>20%</td>
</tr>
<tr>
<td>The students’ cohesiveness level</td>
<td>15%</td>
</tr>
<tr>
<td>The students’ motivation, enthusiasm, and interest during the learning process</td>
<td>18%</td>
</tr>
<tr>
<td>Average</td>
<td>19%</td>
</tr>
<tr>
<td>The final stage</td>
<td></td>
</tr>
<tr>
<td>The students’ analytical thinking and problem-solving capability level</td>
<td>15%</td>
</tr>
</tbody>
</table>
The community-based contextual-learning approach has improved the students’ good comprehension level in all stages. For example, in the initial stage, the new approach has increased the students’ learning material completeness from 20% to 65%. It means the students feel that having a complete learning material is essential to help them in observing and analyzing the studied community. In the core stage, the biggest enhancement is in the students’ motivation, enthusiasm, and interest during the learning process, from 18% to 70%, or an increase of 52%. It means that the community project has motivated significantly the students to understanding more about gender in reality. In the final stage, the students’ analytical thinking and problem-solving capability have considerably increased of 50%. It demonstrates that the six-week experience has changed the students’ skills. They become more familiar with problem scanning and making right decisions. The community project has taught them directly in comprehending the real situation and being involved with it.

In the cycle 1, besides evaluating the students’ general performance, specifically the researcher assessed the students’ comprehension on gender anthropology between pre and post action research. The students were tested in five goal areas, i.e. the ability of translating the textbook’s concepts in their own words, the ability of finding and detecting the potential and real problem, the ability of interpreting the observed findings analytically and logically, the ability of applying the concepts to solve the problems, and the ability of building new concepts based upon their observation findings in the society. Table 2 reveals that there are some significant improvements.

### Table 2: Evaluation Results of the Students’ Comprehension on Gender Anthropology in the First Cycle

<table>
<thead>
<tr>
<th>No.</th>
<th>The capability aspects</th>
<th>Students’ Comprehension Level on Gender Anthropology</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Before the Action</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Good</td>
</tr>
<tr>
<td>1</td>
<td>The ability of translating the textbook’s concepts in their own words</td>
<td>30%</td>
</tr>
</tbody>
</table>
The action research has improved all the students’ capability aspects significantly, such as the increase of applying the concepts to solve the problems, from 18% to 63%, or an increase of 45%. This enhancement reveals that the students have learned intensively during their field observation period on the real case of gender in the society. They have felt and experienced directly to what happened in the community related to gender problems. This awareness level will be different if the cases are just storied or explained in the classroom by lecturers. In the very good level, a considerably improvement happens in the ability of finding and detecting the potential and real problem and translating the textbook’s concepts in the students’ own words, from 0% to 25%. It means that some students have notably developed their comprehension level in gender anthropology during the action research. The project has tapped the students’ interest on gender, and they are enjoyed observing the community’s activities and taking knowledge of it.

Generally, in the first cycle, the students’ capabilities on five goal areas have developed significantly, which is in average of 45% and 19% in “good” and “very good” level of comprehension, respectively. However, to examine whether there were possibilities to increase the improvement rate or not, the researcher continued the action research into the second cycle by exchanging the observation fields among the students. It aimed at giving the students a different exposure. In the first cycle, the students choose their own observed location. Nevertheless, in the cycle 2, the researcher wanted to know whether the students’ prior experience (in the cycle 1) could be used or not in the further cycle when the given new locations were relatively unfamiliar for them.

Table 3 showed us that the students’ good comprehension level on gender anthropology was interestingly increasing. It seems that the students’ prior experience is really helpful to manage the new exposures effectively. The different observed locations do not affect at all the students’ performance in conducting the project and dealing with diverse situations. In the other words, the students have performed as expected.
### Table 3: Evaluation Results of the Second Cycle

<table>
<thead>
<tr>
<th>Indicators of Actions</th>
<th>Students’ Good Comprehension Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before the Action II</td>
</tr>
<tr>
<td><strong>The initial phase:</strong></td>
<td></td>
</tr>
<tr>
<td>The students’ mental preparedness</td>
<td>60%</td>
</tr>
<tr>
<td>The students’ learning material completeness</td>
<td>65%</td>
</tr>
<tr>
<td>The students’ conditioned-learning process</td>
<td>65%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>63%</strong></td>
</tr>
<tr>
<td><strong>The core stage:</strong></td>
<td></td>
</tr>
<tr>
<td>The learning effectiveness</td>
<td>60%</td>
</tr>
<tr>
<td>The dynamic interaction of teaching and learning</td>
<td>65%</td>
</tr>
<tr>
<td>The students’ participation in learning process</td>
<td>70%</td>
</tr>
<tr>
<td>The students’ cohesiveness level</td>
<td>65%</td>
</tr>
<tr>
<td>The students’ motivation, enthusiasm, and interest during the learning process</td>
<td>70%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>64%</strong></td>
</tr>
<tr>
<td><strong>The final stage</strong></td>
<td></td>
</tr>
<tr>
<td>The students’ analytical thinking and problem-solving capability level</td>
<td>65%</td>
</tr>
<tr>
<td>The students’ willingness and readiness to the advanced-learning process</td>
<td>65%</td>
</tr>
<tr>
<td>The students’ satisfaction of learning process</td>
<td>68%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>66%</strong></td>
</tr>
<tr>
<td><strong>Total average</strong></td>
<td><strong>63%</strong></td>
</tr>
</tbody>
</table>

**Source:** elaborated data

There are two indicators, i.e. the students’ mental preparedness and learning effectiveness, have increased significantly, 25% and 27% respectively. It indicates that the students have learned from their prior experience in the first cycle to handle the similar situations in the different locations. In the other words, the students’ learning curve has improved. It is an important progress due to the basic philosophy of any learning process is a continuous improvement.

In the capability aspects (see Table 4), the second cycle reported some positive progress, which five goal areas have increased in average of 6% and 4% in “good” and “very good” comprehension levels compared to prior cycle, respectively. A significant development of 12% happened in the ability of interpreting the observed findings analytically and logically and applying the concepts to solve the problems. It demonstrates that prior experience is the key for handling the similar exposures. The number of students with “very good” comprehension level in average has considerably increased. It reflects that the second cycle period still provides an interesting challenge to certain students, and they are enjoyed. In the
researcher’s perspective, the research action has met its main goal, i.e. to trigger the students’ interest and enthusiasm in learning gender anthropology.

Table 4: Evaluation Results of the Students’ Comprehension on Gender Anthropology in the Second Cycle

<table>
<thead>
<tr>
<th>No.</th>
<th>The capability aspects</th>
<th>Students’ Comprehension Level on Gender Anthropology</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Before the Action II</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Good</td>
</tr>
<tr>
<td>1</td>
<td>The ability of translating the textbook’s concepts in their own words</td>
<td>65%</td>
</tr>
<tr>
<td>2</td>
<td>The ability of interpreting the observed findings analytically and logically</td>
<td>58%</td>
</tr>
<tr>
<td>3</td>
<td>The ability of finding and detecting the potential and real problem</td>
<td>60%</td>
</tr>
<tr>
<td>4</td>
<td>The ability of applying the concepts to solve the problems</td>
<td>63%</td>
</tr>
<tr>
<td>5</td>
<td>The ability of building new concepts based upon their observation findings in the society</td>
<td>60%</td>
</tr>
</tbody>
</table>

Average 66% 19% 72% 23%

Source: elaborated data

Table 5: Measured Elements of the Students’ Comprehension on Gender Anthropology in All Cycles

<table>
<thead>
<tr>
<th>No.</th>
<th>Measured Elements</th>
<th>Students’ Comprehension Level on Gender Anthropology</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Before the Action I</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Good</td>
</tr>
<tr>
<td>1</td>
<td>Indicators of actions (11 indicators, 3 stages)</td>
<td>17%</td>
</tr>
<tr>
<td>2</td>
<td>The capability aspects (5 goal areas)</td>
<td>21%</td>
</tr>
</tbody>
</table>

Source: elaborated data

Besides the considerably improvements produced during the action research period, there are some lessons learned from this study. Firstly, by allowing some class-time to work on the research project, it generated also peer pressure for other students to attend class; thus, it improved the attendance and participation as compared to the pre-action research classes. Secondly, the field observation has given the students an initial experience to examine and do...
a reflection upon the findings (feedback from the report presentation and lecturers), and to form the foundation for their active experimentation (incorporating what they learned from the field observation into a comprehensive understanding on gender anthropology). Thirdly, the frequent dialog and critical reflection between the students and lecturers during the cycles has created a collaborative learning environment, due to the discussion not only focused on modifications in the learning activity, but also shared and compared observations, survey data, and other information on what was and what was not working through the learning activities being deployed in the observed fields. Finally, the community-based contextual learning process, which emphasizes the context or learning environment in which learning takes place and its effect on study behavior, has directed the students to concentrate on the underlying purpose and meaning to the learning activity. In the other words, it has supported a creation of deep learning environment. This kind of learning approach facilitates the ability to understand and apply the information studied.

CONCLUSION

The action research in the non-science course, which is relatively rare conducted in emerging countries, has proven that it is helpful to improve and attract the students’ motivation, enthusiasm, and interest. By using 42-observation fields and two-cycle period, this research project has successfully increased the students’ comprehension level on gender anthropology and their capability’s aspects, such as the ability of finding and detecting the potential and real problem, the ability of interpreting the observed findings analytically and logically, and the ability of applying the concepts to solve the problems. In the first cycle, the action research has enhanced all the students’ capability aspects significantly, from 21% to 66%, or an increase of 45%. Meanwhile, the 11-indicators of students’ comprehension level reveal a significant increase, from 17% (“good” level before the action) to 65% (the same level) and 88% after cycle1 and cycle 2, respectively.

Our study implies that action research allows all education processes' participants (lecturers and students) to learn about themselves in a meaningful way intent of improving their knowledge building process. In case of non-science course like gender anthropology, community-based contextual learning approach is much more useful to attract and increase the students’ motivation, enthusiasm, and interest to be involved and perform better. Our empirical findings provide valuable information for any Indonesian decision-makers in education to consider the context-based learning approach as one of the main formulas in creating and determining the higher-education curricula.

REFERENCES

Abstract
This study aims to examine the dollarization phenomenon, which happens in a country when it has a high inflation. At the modern economic era, Indonesia experienced an elevated inflation period in 1997-2004 when the Asia financial crisis stormed Southeast Asian countries. By using a currency substitution model and three variable vector auto-regressive (VAR), this study tested the currency substitution and its potential interactions during the economic crisis period in Indonesia. The results reveal that the dollarization phenomenon exists significantly before and after the economy crisis.

Keywords: economic crisis, dollarization, currency substitution

INTRODUCTION
In high inflation countries, the elevated decrease of the domestic currency value leads agents to substitute it with foreign currency. This phenomenon is usually called currency substitution, or simply dollarization.

Reviewing some literatures, we find some variety of currency substitution definitions. However, all of them focus broadly on the three traditional functions of money: unit of account, the provider of transaction services, and provider of store of value services. Some scholars, such as Calvo and Vegh (1992) and Cuddington (1989), limit the currency substitution in the use of currencies as media of exchange. Other authors limit their definition to the store of value function of money. Nevertheless, the term “dollarization” is frequently used to indicate that foreign money as a store of value, and not necessarily as a medium of exchange. It happens especially to the speculators who seek the gain from the volatility of money.

Currency substitution is a phenomenon in the whole world but especially in developing countries. The significance of currency substitution plays an important role in financing government deficit, determining an appropriate foreign exchange regime, implementing a stabilization program and conducting the monetary policy. The substitution of money can be modeled, as foreign currencies are perfect substitutes as means of payment.

During the last ten years, Indonesia's economy experienced periods of elevated economic growth as well as severe economic crises. One remarkable characteristic of the Indonesia economy has been high and persistent inflation. Since economic liberalization in 1983, domestic financial markets with the rest of the world capital account restrictions were eliminated. Moreover, after financial crisis financial transactions were allowed to be conducted in both domestic and foreign currencies.
The experiences from various Latin American countries, including Argentina, Bolivia, and Peru, currency substitution has apparently increased in these countries subsequent to the reduction in inflation. Currency substitution in developing countries is usually one of the ultimate consequences of high and variable inflation. High inflation, in turn, is the result of the fiscal imbalances, leads to currency substitution. Institutional factors play a crucial role in the process of currency substitution. When restriction on holding of foreign currency removed the dollarization process usually begins with the foreign money substituting domestic money as a store of value. As high inflation continues, some prices -particularly of real estates, cars and other imported items – start to be quoted in foreign currency. After this process, some transactions begin to be performed in foreign currency, especially those involving large transfers of funds. However, domestic money seems to retain its functions as a unit of account and medium of exchange in almost all non-durable goods (Calvo and Vegh, 1992).

The slowdown of economic growth of Indonesia and followed by a slightly growth of export, a large current account deficit, a rising external debt and an un-hedged foreign currency-denominated borrowing by the private sector lead to an initial devaluation of Rupiah. Stanley Fisher (1998) suggested that as currencies continued to slide, the debt service costs of these countries’ private sectors increased. Consequently, resident hastened to hedge their external liabilities, intensifying exchange rate pressure.

However, this pressure imposed on domestic currency, which then influences domestic money holding and economy growth. This makes domestic tend to hold foreign currencies to increase their wealth and hold less domestic currency. If this force continues, then the decline in holding domestic currency will persist and further worsen the economic condition.

This paper will determine the relationship between currency depreciation and domestic money holding in Indonesia. This paper adopts the definition of currency substitution used by Akcay, Alper, and Karasulu (1997) and Calvo and Vegh (1992) focusing on the M2 definition of money as a proxy for currency substitution. These findings have important policy-related implications. Developing countries have long tried to achieve long-run sustainable and stable economic growth by artificially fixing their currency to a more stable country’s currency.

LITERATURE REVIEW

More than forty years ago, McKinnon (1963) and Mundell (1961) reminded an optimum currency area (OCA) did not imply identity between national territory and OCA when factor mobility within countries is low. He clarified that the distinction between OCA and national territory by defining OCA as an area where flexible exchange rates can be used to reach full employment and external equilibrium, while keeping domestic price level under control. An obvious implication of this view is that there are countries where full employment, external equilibrium and low inflation cannot be reached simultaneously. Such countries should not be considered optimum currency areas.

Thirty-six years later, McKinnon's (1999) and Mundell's (1999) agreed to propose for fixed or quasi-fixed exchange rates for small and open economy countries, and this seemed to be in contrast with economics profession's mainstream. Growing popularity of inflation targeting and fears of short-term international capital flows, led many authors to conclude that flexible
exchange rates represent the best monetary regime market (Masson, 1999; Mishkin, 1999a, 1999b). Fluctuating exchange rate was seen as a vehicle of macroeconomic adjustment as well as a vehicle of prevention against volatile short-term international capital flows.

There are at least five reasons why this view has to be reconsidered (Sonje, 2002). Firstly, fluctuating exchange rate can serve as an adjustment mechanism only if a country represents an optimum currency area. Secondly, exchange rate fluctuations can stimulate short-term capital flows, which means that stable exchange rate, if credible, can stabilize international capital flows. Thirdly, Stable exchange rate can be a solution to the central bank's problem if there is a close correlation between nominal interest rate and nominal exchange rate. Fourthly, the exchange rate changes may lead to wealth effects and offsetting macroeconomic adjustments when large share of assets and liabilities is denominated or held in foreign currency. Fifthly, fluctuating exchange rates in European countries in the last 15 years did not imply lower macroeconomic adjustment costs for countries that pursued such policies.

Most of the developing countries have implied the currency substitution in order to sustain the economic performance. Sonje (2002) conducted a research about the currency substitutions in the newly members of European Union found that there are three groups of countries that implying currency substitution. The first group that has a low substitution currency is Poland and Hungary. The second group comprises Czech Republic, Estonia, Lithuania, Romania, Slovenia, Slovakia and Turkey. The third group comprises Bulgaria, Croatia and Latvia. The division of these groups depends on elasticity of substitution between different denominations of monetary and financial assets. The higher of the elasticity reflects the sensitivity of domestics to change their assets in foreign currency, especially Euro Currency.

The currency substitution also occurred in Thailand during 1977 – 1990. Oskooee and Thecaratananchai (2001) found that when Thailand devaluated its currency, there was a slowdown in economic activity, thus a recession. This decline led to a currency substitution among the domestic in order to increase their wealth.

Prock et al. (2002) attempt to find the currency substitution among the three big economic countries in Latin America: Argentina, Brazil and Mexico. In their paper, they find that currency substitution occurred more in Argentina and Brazil than Mexico perhaps because of relatively more successful economic policies implemented in Mexico after the December 1994 crisis. The lack of a significant result for currency substitution in Mexico could be a reflection of its credible exchange rate and monetary policy. Mexico has a reasonable record of relative financial stability in the recent past. Furthermore, their foreign reserve to GDP ratio is higher and more stable compared to Argentina and Brazil. Mexico has a relatively more credible Central Bank policy and lesser degree of currency substitution.

**MODEL**

This paper adopts the definition of currency substitution used by Akcay, Alper, and Karasulu (1997) and Calvo and Vegh (1992) focusing on the M2 definition of money as a proxy for currency substitution. The currency substitution to least occur in countries that have implemented successful stabilization programs and are in a strong position to sterilize foreign shocks.
The demand for money has two features in general. The first is that it can formulate the monetary policy. The second is that money demand can formulate the exchange rate function together with other fundamental variables such as income, interest rate and price. We follow Arango and Nadiri (1981) and Bahmani-Oskooe (1996) by assuming that the M2 money demand function takes the following form:

\[
\log M_2_t = a + b \log Y_t + c \log E_t + x \log i_t + e_t
\]  

where \(M_2\) is the real money stock, \(Y\) the real income, \(i\) the interest rate, and \(E\) the nominal exchange rate.

In Eq. (1), the income elasticity \(b\) is expected to be positive, and the interest elasticity \(x\) is expected to be negative. As argued by Arango and Nadiri (1981), a depreciation of the domestic currency increases the value of foreign securities held by domestic individuals. If this increase is perceived as an increase in wealth, demand for domestic cash balances may increase. The link between exchange rates and money demand can also be used to define currency substitution. According to the currency substitution literature, when the exchange rate is expected to depreciate, the expected return from holding foreign money increases, and the demand for domestic currency falls (as individuals substitute foreign money for domestic currency). So if depreciation of the Indonesia Rupiah reflected by an increase in the effective exchange rate induces a decline in money holdings by domestic residents, the estimate of \(c\) should be negative.

**METHODODOLOGY**

This paper uses a three variable vector auto-regressive (VAR) in order to get such potential interactions. The VAR model is a fine approach to estimate the unrestricted reduced-form equations with uniform sets of lagged dependent variables as regressors. Since no restrictions are imposed on the structure of the system, VARs can be viewed as a flexible approximation to the reduced form of the correctly specified but unknown model of the true economic structure.

In order to detect whether a stable long-run relationship between the currency substitution variables, this paper uses the co-integration technique. Co-integration methodology allows researchers to test for the presence of equilibrium relationships between economic variables.

Prior to testing for co-integration, we need to examine the time-series properties of the variables. They should be integrated of the same order to be co-integrated. In other words, variables should be stationary after differencing each time series the same number of times. Therefore, at the first step, we develop unit root test to find a non-stationary level.

**Unit Root Test**

Granger and Newbold (1974) suggested that in the presence of non-stationary variables, there might be a spurious regression. A spurious regression has a high \(R^2\) and t-statistics that appear to be significant, but the results are without any economic meaning.

The time series of \(m, y, r,\) and \(\pi\), which are, in fact, non-stationary time series, are generated by random process and can be written as follows:

\[
Z_t = Z_{t-1} + \varepsilon_t
\]  

(2)
where $\varepsilon_t$ is the stochastic error term that follows the classical assumptions, which means, it has zero mean, constant variance and is non-autocorrelated (such an error term is also known as white noise error term) and $Z$ is the time series.

Since we need to use the stationary time series for the next co-integration test and we also need to solve this unit root problem, therefore, we will run the regression of unit root test based on the following equation:

$$\Delta Z_t = a + bZ_{t-1} + c\Delta Z_{t-1} + \varepsilon_t$$

(3)

where we add the lagged difference terms of dependent variable $Z$ to the right-hand side of equation (2). This augmented specification is then used to test:

$$H_0: b = 0 \quad H_1: b < 0$$

Therefore, both the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) statistics are used to test the unit root as the null hypothesis.

**Cointegration Test**

Engle and Granger suggested that co-integration refer to variables that are integrated of the same order. If two variables are integrated of different orders, they cannot be co-integrated.

Under the unit root test, the results show that the variables of money demand, income, exchange rate and interest rate are stationary at the first difference $[I(1)]$. Continuously, all the variables will be tested in co-integration test, by using the Johansen test statistics, imply that if money demand function variables are co-integrated, so there is a long term equilibrium relationship between these variables.

**DATA SET AND RESULTS**

Data used in this paper is taken from International Financial Statistics and run from first quarter 1997 until first quarter 2004. The chosen exchange rate is the quarterly market exchange rate in terms of Rupiah per US dollar. The income (output) measure is quarterly Gross Domestic Product. The chosen money supply is quarterly M2. Moreover, the interest rate chosen variable is three-month deposit rate.

Table 1 presents the results of both unit root tests for all variables in levels and first difference. The ADF test fails to reject the null hypothesis at the 5% level for some variables such as output ($y$) and interest rate ($r$). Similarly, the PP test also fails to reject the null hypothesis for the same variables.

However, the ADF and PP tests reject the null hypothesis for all variables in the first difference at 5% level, except the variable interest rate ($r$) which is at 10% level. Since all variables are stationary at first difference, therefore, it is an $I(1)$ stochastic process. The finding implies that it is reasonable to proceed with test for co-integrating relationship between combinations of these series under the premise of non-stationary.

**Table 1**

Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) Statistics for Currency Substitution

<table>
<thead>
<tr>
<th>Case: 1997.3 – 2004.1</th>
<th>Level</th>
<th>1st difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Var.</td>
<td>ADF</td>
<td>PP</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Currency Substitution and Financial Crisis: Lessons from a Southeast Emerging Market

To check currency substitution occurred in Indonesia, then the regression is built using OLS method. The result using the data 1997.1 until 2004.1 is as follows:

\[
m_t = -0.005 - 0.047y_t + 0.197e_t - 0.003i_t + 0.201y_{t-1} - 0.013e_{t-1} - 0.004i_{t-1} - 0.564m_{t-1} + \varepsilon_t
\]

\[
(-1.136) (-0.680) (8.936) (-2.142) (2.223) (-0.370) (-3.676) (-4.356)
\]

R² = 0.896                  F = 23.425              DW = 2.038

* denote rejection of the null at 5% level
** denote rejection of the null at 10% level

This regression is made in a lag model in order to find out the previous phenomenon. The result shows some variables do not have the same sign as hypothesized. The current income has a negative sign while its lag shows a positive sign. It means that when there is an increase in previous income, it will lead to an increase in holding money in the current time. The same fact is occurred to exchange rate. It seems that people hold less money now to anticipate the depreciation of rupiah currency in the previous period. In addition, people act rationally in responding to the increase of interest rate. When crises hit Indonesia, the interest rate reached almost 70.0%, therefore, people prefer to hold less money. The trend of holding cash in Indonesia also decreases. It can be seen in the negative sign in the income variable. The higher the income, the lower of the people hold money. People prefer to choose the alternative payment instrument such as credit card or cheque instead of money.

Table 2.
Cointegration results (with a linear trend)

<table>
<thead>
<tr>
<th>Null r</th>
<th>Alternative r</th>
<th>Trace Statistic</th>
<th>95% Critical Value</th>
<th>Max Eigen Statistic</th>
<th>95% Critical Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>1</td>
<td>59.55*</td>
<td>39.89</td>
<td>32.96*</td>
<td>23.8</td>
</tr>
<tr>
<td>≤1</td>
<td>2</td>
<td>26.59*</td>
<td>24.31</td>
<td>11.58</td>
<td>17.89</td>
</tr>
<tr>
<td>≤2</td>
<td>3</td>
<td>15.01*</td>
<td>12.53</td>
<td>7.80</td>
<td>11.44</td>
</tr>
<tr>
<td>≤3</td>
<td>4</td>
<td>7.20*</td>
<td>3.84</td>
<td>7.20*</td>
<td>3.84</td>
</tr>
</tbody>
</table>

where r is the number of cointegration vectors * denote rejection of the null at the 5% level with critical values from Oswald-Lenum (1992).

The parameter estimates of the co-integrating model are reported in Table 2. The Johansen test rejects the null hypothesis at 5%, which proves the existence of co-integrating relationship between money demand, income, exchange rate and interest rate in the long
term. Therefore, this result indicates five co-integrating equations at 5% significant level using Trace Statistic. However, based on Max Eigen Statistic at least one co-integrating equation.

Finally, Table 3 presents the result of VECMs test for each variable. From the table, there is no existence of bilateral causality from each variable. However, some variables are significant correlated. The result shows that exchange rate significantly correlated with money demand. In general, the findings of VECMs test suggest that there is co-integrating relationship in short term between exchange rate and macroeconomic fundamentals.

**Tabel 3.**

**VECM Granger Causality Test**

<table>
<thead>
<tr>
<th>Null Hypothesis</th>
<th>F-Statistic</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>y does not Granger Cause m</td>
<td>1.4823</td>
<td>0.2499</td>
</tr>
<tr>
<td>m does not Granger Cause y</td>
<td>1.1394</td>
<td>0.3390</td>
</tr>
<tr>
<td>i does not Granger Cause m</td>
<td>0.8085</td>
<td>0.4589</td>
</tr>
<tr>
<td>m does not Granger Cause i*</td>
<td>5.3525</td>
<td>0.0132</td>
</tr>
<tr>
<td>e does not Granger Cause m*</td>
<td>8.5963</td>
<td>0.0019</td>
</tr>
<tr>
<td>m does not Granger Cause e</td>
<td>2.1619</td>
<td>0.1400</td>
</tr>
<tr>
<td>i does not Granger Cause y</td>
<td>0.5422</td>
<td>0.5894</td>
</tr>
<tr>
<td>y does not Granger Cause I</td>
<td>0.9887</td>
<td>0.3887</td>
</tr>
<tr>
<td>e does not Granger Cause y</td>
<td>1.2971</td>
<td>0.2943</td>
</tr>
<tr>
<td>y does not Granger Cause e</td>
<td>1.7444</td>
<td>0.1991</td>
</tr>
<tr>
<td>e does not Granger Cause i*</td>
<td>15.0436</td>
<td>0.0001</td>
</tr>
<tr>
<td>i does not Granger Cause e</td>
<td>0.3158</td>
<td>0.7326</td>
</tr>
</tbody>
</table>

* denotes reject at 5% level of significant  
** denotes reject at 10% level of significant

**CONCLUSION**

This paper examines the money demand function and currency substitution motive in Indonesia. We use two econometric approaches. First, we test the stationarity of each time series in order to estimate the co-integrating relationship in the long run and short run. The findings have identified that all-time series are stationary at the first difference in the Augmented Dickey-Fuller and Phillip-Perron test. Consequently, the Johansen co-integrating test shows that there is a co-integration in money demand function in Indonesia. Secondly, we used the VECMs test to prove the relationship among the variables.

Overall, the paper’s finding suggests that there is a currency substitution during 1997 to 2004 in Indonesia. People react rationally when there is a fluctuation in the exchange rate. In addition, the trend of holding cash in Indonesia also decreases. People prefer to choose the alternative payment instrument such as credit card or cheque instead of money.

**REFERENCES**


Šonje, Velimir,(2002). The Impact of Currency Substitution on the Choice of Exchange Rate Regime: Lessons for EU Accession Countries
Decentralization and Public Expenditure: Does Special Local Autonomy Affect Regional Economic Growth?

Abstract
This study examines the relationship between public expenditure within regional autonomy policy and economic growth in West Papua and Papua provinces. We distinguish two kinds of expenditure's decentralization – operational and capital – and also private expenditures. We use an unbalanced panel data over the period of 2007-2010 to investigate those expenditures, whether they enhance regional economic growth or not. We find that the government's operating and private expenditures have a positive effect on local economic growth, but there is no relationship between capital expenditure's decentralization on economic growth. The findings did not conform to a-priori efficiency expectations, which suggest needing to reform regional autonomy and fiscal decentralization policy in both provinces.

Keywords: operating and capital expenditures, regional autonomy, efficiency, economic growth

INTRODUCTION
It refers to Law No. 21/2001, which is then revised by the Presidential Decree No. 1/2008, there are local governments labeled special autonomy regions, i.e. Nangroe Aceh Darussalam, Papua, and West Papua provinces. In this circumstance, they receive a substantial amount of the fund from central government, including General-Purpose Grant, Specific Purpose Grant, and tax/non tax sharing revenues. However, unlike other provinces, the three regions also earn Special Autonomy Fund. Given the large amount of fund and allocation discretionary, this brought about the need to examine and determine the effect of budgetary allocations by sector on the regional economy to generate the much-needed information critical in decision making and prioritizing expenditure.

The impact of public expenditures on economic growth has been the intense research and heated debate. The existing studies on the linkages between public expenditure and economic growth showed conflicting results. For instance, according to Ram (1986) and Romer (1989, 1990a, 1990b), there was a significant and positive relationship between public expenditure and economic growth. In contrast, Landau (1983, 1985), Grier and Tullock (1989), Alexander (1990), Barro and (1990, 1991) found a significant but negative relationship. Kormendi and Meguire (1985), Levine & Renelt (1992) found the association between public expenditure and economic growth to be insignificant.
These conflicting findings highlighted the importance of more research to identify the linkage between the composition of public expenditure and economic growth for developing countries, including Indonesia. The purpose of this paper is to shed light on the relationship between the composition of public expenditure and economic growth. As suggested by Bose, Haque, and Osborn (2007), to get further insights into the linkages between fiscal policies and economic growth, we identify the elements of public expenditure.

This paper is closely related to the previous studies, and it contributes to the literature, at least, in two ways. First, we estimate the regional public expenditure in relation to economic growth in the case of a special autonomy region which has its own uniqueness. Second, we combine the local public expenditures and private expenditure approaches. We hope that the combination of the two approaches can offer wider perspective.

**LITERATURE REVIEW**

Keynes (1964) advocated for government spending to create jobs and employ capital that has been unemployed or underutilized when an economy is in a downturn with high unemployment of labor and capital. Keynes’s theory postulates that government spending is needed to increase economic output and promote growth.

The explicit intention of public expenditures in relation to economic growth was initiated by Barro (1990). Previously, the Solow growth model (1956) considered that public expenditure was only related to the equilibrium factor ratios and it was assumed that public investment was not related to long-run economic growth. The endogenous growth model (Romer, 1990) argues that the significant relationship between long-run economic growth and public expenditure rests on the inclusion of fiscal policies into the endogenous growth model with the conclusion that public spending can affect the long-run economic growth (Barro and Sala-i-Martin, 1992).

Much of the empirical literature on fiscal policy and long-run growth has focused on taxes rather than public expenditures, and suffers from various methodological weaknesses (Temple, 1999). In particular, it is now recognized that tests of the growth effect of public expenditure decompositions (and other fiscal variables) must accommodate the total government budget (expenditures, revenues, deficits); a feature missing from much of the earlier literature (Bleaney, Gemmell, and Kneller, 2001).

Regarding to the composition of public expenditure, Devarajan, Swaroop, and Zou (1996) observed economic growth in 140 OECD countries. They show that an increase in the share of current expenditure has positive and statistically significant growth effects. By contrast, the relationship between the capital component of public expenditure and per-capita growth is negative. Thus, seemingly productive expenditures, when used in excess, could become unproductive.

Colombier (2011) estimates the growth effects of the composition of public expenditure for the Swiss case. One main finding is that public expenditures on transport infrastructure, education, and administration foster growth. These results imply that developing-country governments have been mis-allocating public expenditures in favor of capital expenditures at the expense of current expenditures.
In the context of developing countries, Sennoga and Matovu (2010) utilize a dynamic Computable General Equilibrium model to study these interrelationships. Their paper demonstrates that public spending composition does indeed influence economic growth and poverty reduction in Uganda. In particular, this study shows that improved public sector efficiency coupled with re-allocation of public expenditure away from the unproductive sectors such as public administration and security to the productive sectors, including agriculture, energy, water, and health leads to higher GDP growth rates and accelerates poverty reduction.

Olabisi and Oloni (2012) explore the relationship between the composition of public expenditure and economic growth in Nigeria. Government expenditure is expected to be means of reducing the negative impacts of market failure of the economy. However, allocations of public expenditure with lack of consideration for the urgent needs of the country may engender greater distortion in the economy which may be detrimental to growth. They have analyzed the relationship between public expenditure compositions on economic growth using the vector auto-regressive models. The finding shows that expenditure on education has failed to enhance economic growth due to the high rate of rent seeking in the country as well as the growing rate of unemployment.

Mudagi and Masaviru (2012) investigated the impact of public spending on education, health, economic affairs, defense, agriculture, transport and communication on economic growth in Kenya. The findings showed that expenditure on education was a highly significant determinant of economic growth while expenditure on economic affairs, transport and communication were also significant albeit weakly. In contrast, expenditure on agriculture was found to have a significant though a negative impact on economic growth. Outlays on health and defense were all found to be insignificant determinants of economic growth.

In light of these findings, Barro and Sala-i-Martin (1992) cautioned that government expenditure may be productive or unproductive. It seems that consumption government expenditures tend to have a negative impact on economic growth in advanced countries but have a positive impact in developing countries. Similarly, the productive government expenditures in developed countries may be productive in developing countries.

**METHODOLOGY**

Those studies suggest that the root of the problem of the impact of public expenditures on economic growth is the efficiency of the corresponding expenditures. To test the efficiency of expenditures, especially local public expenditure, we adopt the conventional Cobb-Douglas production function and applied at the regency/municipality level in Papua and West Papua Indonesia.

Based on the literature review in the previous section, the regional income (Y) is assumed to be dependent on government expenditures (GE) and private expenditures (PE):

\[ Y = f (GE, PE) \]  

The government expenditures can be divided into 2 broad categories, i.e. capital expenditures (CE, typically investment expenditures) and operating expenditures (OE, representing consumption expenditures):
Geometrically, public expenditure is total expenditure minus total government expenditure:

\[ GE \in \{ CE, OE \} \]

Private expenditure is total expenditure minus total government expenditure:

\[ PE = Y - GE \]

To avoid perfect co-linearity among variables above, we specified PE in relative term to GE (PE/GE).

This study has been made on the basis of panel data models to investigate the contribution of public and private expenditures performance on local economic growth. In order to overcome this problem, this study uses log linear specification and the model can be written as follows:

\[ \text{Log } Y_{it} = \alpha + \beta_1 \text{Log } CE_{it} + \beta_2 \text{Log } OE_{it} + \beta_3 (PE/GE)_{it} + e_{it} \]

Subscripts i denotes regency/municipality, t is time, and e = random disturbance terms.

The neoclassical production theory predicts that an increase in capital expenditure will raise regional income so we expect \( \beta_1 \) is positive. The estimated value of \( \beta_2 \) could be positive or negative. When the private expenditure rises, the local income tends to increase. We predict \( \beta_3 \) is positive.

The traditional microeconomic theory proposed that the local government expenditure is treated similarly to the private expenditure and the local public expenditure is examined under the assumption that local government faces linear budget constraints to supply public goods/services. Given that, we can test some restrictions imposed into equation (4):

\[ \beta_1 = \beta_2; \]

i.e. public expenditures have equal impact on economic growth

\[ \beta_1 = \beta_2 = 1 \]

i.e. public expenditures have an allocative efficiency

\[ [\beta_1 = \beta_2] + \beta_3 = 1, \]

i.e. constant return to scale – Public and private expenditures have equal impact on economic growth

The test is done using both analysis of variance (F-test) and chi-square (\( \chi^2 \)-test) tests for each parameter restriction imposed (see for example: Gujarati, 2004).

This study utilizes regencies/municipalities data of Papua and West Papua provinces throughout a period of 2007 until 2010 with a total of 29 and 11 regencies/municipalities respectively. Due to the altered number of regions in both provinces during the study period, the samples utilized in this study are the regions that meet the following criteria: (a) the availability of Local Budget Realization Report data; (b) regencies/municipalities that already exist and not experiencing changes (division, unification); and (c) the associated regencies/municipalities have the complete required data.

Referring to those above criteria, there were only 87 sample-points regencies/municipalities exerted as a sample in this study. All the data are taken from Local Budget Realization...
Report data published by General Directorate of Fiscal Balance, Ministry of Treasury website (http://www.djpke.depkeu.go.id/). Other data come from Central Board of Statistics (http://www.bps.go.id). This study employs regression analysis, i.e. multiple regression analysis and applied for unbalanced panel data by assuming all requirements in regression analysis are satisfied.

The variables used here are specified as follows. The regional income is the summation of final products measured in 2000 constant prices (million Rupiah). The capital expenditure follows the sectoral/functional budgetary realizations. The operating expenditures cover realizations of wage/salary, goods/services purchases, maintenance, etc. (in million Rupiahs). Those expenditures are then converted into a real term by dividing by GDP deflator (2000 = 1).

RESULTS AND DISCUSSION

Table 1 delivers the descriptive statistics of all variables under study covering mean, extreme, standard deviation, and also kurtosis values covering all regions. Statistically, a variable is said to be volatile if its CV (coefficient of variation, the ratio of standard deviation to mean) is more than 50 percent. Based on the empirical rule, the regional income is the most volatile indicated by the highest CV (312.15 percent) which more than 54 trillion contributed by Mimika regency.

The variability of capital expenditure is also relatively high closes to 46 percent. The total public expenditure is the least diverse revealed by the lowest CV (36.25 percent). This raises preliminary hypothesis that capital expenditures and private expenditures support to regional economic growth. We will check it more deeply later using econometric tools.

All of variables of interest are asymmetrically distributed (bell-shaped) indicated by the high value of skewness, especially Y. Intuitively, the null hypotheses state that the series data is normally distributed can be rejected The Jarque-Bera test supports to the asymmetric distribution. The upper tail of the distribution is thicker than the lower tail (indicated by the positive values of skewness), and the tails of the distribution are thicker than the normal (indicated by the kurtosis coefficient is greater than 3).

Table 1
Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>CE</th>
<th>TE</th>
<th>Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>206269.98</td>
<td>529998.56</td>
<td>2647428.61</td>
</tr>
<tr>
<td>Median</td>
<td>202406.65</td>
<td>540975.73</td>
<td>708169.73</td>
</tr>
<tr>
<td>Maximum</td>
<td>547009.17</td>
<td>1207114.12</td>
<td>54840480.61</td>
</tr>
<tr>
<td>Minimum</td>
<td>43119.77</td>
<td>161236.20</td>
<td>140707.55</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>94777.05</td>
<td>192148.65</td>
<td>8264070.60</td>
</tr>
<tr>
<td>Skewness</td>
<td>0.7413</td>
<td>0.5266</td>
<td>5.1829</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>3.8205</td>
<td>4.4275</td>
<td>29.4212</td>
</tr>
<tr>
<td>CV (%)</td>
<td>45.95</td>
<td>36.25</td>
<td>312.15</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>10.4080</td>
<td>11.4078</td>
<td>2920.0373</td>
</tr>
<tr>
<td>Probability</td>
<td>0.0055</td>
<td>0.0033</td>
<td>0.0000</td>
</tr>
</tbody>
</table>
Table 2 reports the estimation results of log linear model based on the fixed effect model as specified in equation (4) for West Papua, Papua, and both provinces respectively. The sign of public expenditures coefficients are contradict both across expenditure and province. The coefficient of capital expenditure is negative (in Papua and total provinces) and as expected before is positive (in West Papua). The sign of operating expenditures coefficients are positive for all three regions.

The statistical evaluation on the corresponding coefficient unfortunately is statistically insignificant. Given that, we infer that public capital expenditure failed to support regional economic growth suggesting the capital expenditure is unproductive. This finding is in line with recent studies in developing countries, especially for Africa (Olabisi and Oloni, 2012; Mudaki and Masaviru, 2012).

With regard to the operating expenditure, the magnitude of the corresponding coefficients is higher compared to the capital expenditure, especially in Papua province. Consequently, overall, the public expenditures remain contributing marginally to economic growth. Given that, we can say that the division/construction of new localities in the spirit of regional autonomy followed by increasing operating expenditures support to economic growth.

The private expenditure significantly contributes to the local income growth. The increase 1 percent in private expenditure overall tends to raise local income for about 0.1 percent on the average. Looking at the coefficient of private expenditure, the magnitude is lower than that of the operating expenditure for all three cases. When we replaced it with its lag to accommodate persistent private investment, the result does not change. In such a case, we conclude that private sector is weak enough to play an important role to the economy. Probably, it could explain why Papua and West Papua provinces are relatively less developed than other provinces in Indonesia.

Table 2
Regression Results

<table>
<thead>
<tr>
<th>Dep. Var: Log (Y)</th>
<th>West Papua</th>
<th>Papua</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coeff.</td>
<td>t-stat</td>
<td>Coeff.</td>
</tr>
<tr>
<td>Constant</td>
<td>1.520003</td>
<td>0.77857</td>
<td>-2.323454</td>
</tr>
<tr>
<td>Log (CE)</td>
<td>0.213823</td>
<td>1.51770</td>
<td>-0.136237</td>
</tr>
<tr>
<td>Log (OE)</td>
<td>0.726996</td>
<td>4.91650</td>
<td>1.371784</td>
</tr>
<tr>
<td>(PE/GE)</td>
<td>0.300831</td>
<td>9.78143</td>
<td>0.093181</td>
</tr>
<tr>
<td>R-sq</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>58.82415</td>
<td>66.57738</td>
<td>63.21556</td>
</tr>
<tr>
<td>SEE</td>
<td>0.32998</td>
<td>0.53291</td>
<td>0.58631</td>
</tr>
<tr>
<td>N</td>
<td>39</td>
<td>48</td>
<td>87</td>
</tr>
</tbody>
</table>

So far, we have talked about the determinants of local economic growth. In the next section, we will answer the main question, whether both the public and private expenditures have been already optimal. In absolute term, the expenditures' elasticity as presented in Table 2 in some cases is less than unity. It seems that the increase in regional income is slower than that in both public and private expenditures implying inefficiency in the corresponding expenditures.
Table 3 presents the result of statistical tests based on some restrictions imposed into the regression equation. By imposing coefficient of both public expenditures are assumed to be equal (\(\beta_1 = \beta_2\)), the result shows that we can reject it in all provinces. The coefficient of capital expenditure statistically does not equal to the operating expenditure implying that the local government internally faces allocative inefficiency problems.

### Table 3
Test of Restrictions

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>(\beta_1 = \beta_2)</td>
<td>4.69106</td>
<td>0.0372</td>
<td>16.26817</td>
<td>0.0002</td>
<td>25.82817</td>
<td>0.0000</td>
</tr>
<tr>
<td>(\beta_1 = \beta_2 = 1)</td>
<td>3.40868</td>
<td>0.0733</td>
<td>2.65080</td>
<td>0.1106</td>
<td>0.21988</td>
<td>0.6404</td>
</tr>
<tr>
<td>([\beta_1 = \beta_2] + \beta_3) = 1</td>
<td>16.13373</td>
<td>0.0000</td>
<td>11.81258</td>
<td>0.0001</td>
<td>33.09966</td>
<td>0.0000</td>
</tr>
<tr>
<td>(\beta_1 = \beta_2 = 1)</td>
<td>32.26746</td>
<td>0.0000</td>
<td>23.62516</td>
<td>0.0000</td>
<td>66.19931</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Furthermore, imposing coefficient of operating expenditure equals to unity (\(\beta_1 = \beta_2 = 1\)), the result shows that we can accept it in all provinces. The corresponding coefficient statistically does not equal to unity implying that the operating expenditure is elastic with respect to regional income. This result is consistent with the analysis above that only the operating expenditures support to regional economic growth.

The third restriction is an assumption of the existence of constant return to scale (\([\beta_1 = \beta_2] + \beta_3\) = 1), i.e. the sum of magnitude coefficients of public and private expenditures are imposed equals to unity. The regional output is said to enjoy a constant return to scale when the increase in both public and private expenditures induce proportionally the regional output increase. In such a case, the regional income is then said to be efficient.

The statistical tests show that we reject the restriction for both provinces. To accept the null hypothesis that the private and public expenditures induce proportionally the local output, we need almost 0 percent confidence level. It means that regency/municipality in West Papua and Papua provinces do not experience constant return to scale. This is in line with the result of the second restriction that proves statistically that \(\beta_1 = 0\) and \(\beta_2 = 1\).

To sum up, all regency/municipality in both provinces has not enjoyed a constant return to scale yet or even experienced increasing return to scale. Consequently, the expenditure is not optimal yet and potential to be prioritized further. This conclusion is consistent with the fact that the human development indices in most regency/municipality in Papua and West Papua provinces are the lowest compared to the other provinces in Indonesia (BPS, 2011). The human development index is determined mainly by regional income, health and education expenditures. The two latest variables are also decentralized to local government. It implies that the private and public expenditures have some technical inefficient problems in the provinces.

**CONCLUSION**

This paper analyzed the local income growth in relation to public expenditure's optimization in the special autonomy region, i.e. Papua and West Papua provinces. The study employed secondary data published by formal institutions focusing on the unbalanced panel data at the
Decentralization and Public Expenditure: Does Special Local Autonomy Affect Regional Economic Growth?

regency/municipality level. The motivation of this paper is triggered by the fact that local governments in Indonesia have been decentralized to manage their own revenues and outlays. This brought about the need to examine the efficiency of sectoral budgetary allocations to provide the critical information in decision making and prioritizing their expenditures.

This paper adopts input-output elasticity method to evaluate the present public and private expenditure optimization at the regency/municipality level in the period of 2007-2010. The elasticity of capital expenditure with respect to regional income is insignificant indicating that the economic growth is not responsive to the capital expenditure. Regarding the operating expenditure, we found unitary elastic indicating that it supports to regional economic growth. Combining to the private expenditure, the regency/municipality in both provinces has increased return to scale implying that the local economy is suboptimal and potential to be accelerated further.

Based on those findings, we suggest that local governments need to improve discretionary public expenditures at the local level, such as prioritize their expenditures and sharpen them – into soft and hard infrastructures - so they create complement to the private expenditures. They also should improve the budget composition as well as enforce the expenditures' efficiency. Furthermore, the study leads to the recommendation to improve local business environment, such as streamlining local regulations and reducing harmful local taxes and user charges to attract more investors. Finally, it needs to reform regional autonomy and fiscal decentralization policies in both provinces.

REFERENCES

Intergovernmental Transfer and Local Government Expenditure: An Anomaly Detection of the Flypaper Effect on the Special Autonomy Implementation

Abstract

Intergovernmental transfers can affect the level of local expenditures. Empirical studies indicate that lump sum grants have more stimulating effect on the level of public expenditures than local private income, which is termed as the flypaper effect. This study examines whether specific grants caused the flypaper effect in the face of linear budget constraint in municipalities in Papua and West Papua provinces. The findings confirm that the flypaper effect is not existent. It is suggested that the bureaucratic model could explain the absence of flypaper effect. Unlike previous research, this study investigates whether the flypaper effect is uniform across local authorities. The finding indicates that special autonomy region fund does not increase the local capital expenditures. It probably explains why Papua and West Papua provinces are less developed than other provinces in Indonesia.

Keywords: Intergovernmental transfer, local government expenditure, flypaper effect

INTRODUCTION

Intergovernmental transfers are a major source of finance to local governments. Overall, they are a surprisingly stable and persistent component of the complex system of intergovernmental regulatory and fiscal relations, even as the responsibilities and powers of sub-national governments evolve over time. Transfers facilitate local fiscal adjustment to fiscal shocks arising from statutory changes by higher-level governments (Wildasin, 2009).

According to Act No. 21/2001 and then revised by the Presidential Decree No. 1/2008, Nangro Aceh Darussalam, Papua, and West Papua are three of local governments that labeled special autonomy region compared to other provinces in Indonesia. In this circumstance, they receive substantial amount of fund from central government especially allocated to develop themselves including General Purpose Grant, Specific Purpose Grant, and tax/non tax sharing revenues.

Unlike other provinces, the three regions also earn special autonomy fund. The problems that arise nowadays are the local governments too much rely upon intergovernmental transfer in order to finance their routine and development expenditures. On the other hand, the large amount of fund does not significantly improve the socio-economic conditions. In 2010, for example, most of municipalities in Papua and West Papua provinces have lower human
development index (BPS, 2011). This brings back to the effectiveness of the capital/development expenditures.

This condition is not in line with the objectives of regional autonomy, which is forming the local government independent with its local potentials. This condition led to an asymmetrical behavior in local government. Beyond the efficiency of expenditures, this paper would like to analyze whether the intergovernmental transfers have positive significant impact on local government expenditure. Focusing the special autonomy fund, the purpose of this study is to demonstrate empirically the flypaper effect presence on the local government expenditure in Papua and West Papua province.

LITERATURE REVIEW

Flypaper effect is said to be exist when intergovernmental grants can stimulate local government expenditures higher than the increase in local income (Oates, 1999). This terminology is used to articulated ‘money sticks where it hits’ proposed by Okun (1920) (Kuncoro, 2005). Hinnes and Thaler (1995) argued that flypaper effect is an anomaly, i.e. the increase in local government expenditures should be proportional to the increase in local income.

The anomaly can be traced back to the classical microeconomic theory. The unconditional grant is considered as additional budget line so it can influence of local government behavior trough income effect. In contrast, the conditional grant that is subjected to provide specific public goods might decrease the relative price. In this case, the conditional grant can influence of local government behavior trough price effect (Holcombe, 1989; Kuncoro, 2005).

In the political economics literature, there are two theories that can explain the flypaper effect phenomenon. The first theory is bureaucratic model proposed by Niskanen (1968). The bureaucratic model of the flypaper effect is based on the assumption of budget maximizing behavior by local politicians (bureaucrats). The flypaper effect happens because the bureaucrats have more information concerning intergovernmental grants and the local budget. The local bureaucrats tend to spend more easily an intergovernmental grant rather than asking for an increase in local tax.

The second theory is the fiscal illusion. According to the theory, the flypaper effect is a result of voter-tax payer ignorance of fiscal illusion. In the fiscal illusion model of grants effect, the government produces the output demanded by the median voters, but demand for public goods is based on misperception about how the public goods are financed and their own share of costs (Thurnbull, 1992). In this case, voters are not assumed to misperceive the actual output of public goods or the benefits derived there from (Thurnbull, 1998).

There are a number of empirical studies of the impact of intergovernmental transfers on local spending both at developing and developed countries to examine the flypaper effect. Some of them based on cross sectional data and the others used panel data. Pommerehne and Schneider (1978), Heyndels and Smolders (1994), Djoundourian (1994), Becker (1996), and Dollery and Worthington (1999) used cross sectional data to show that the flypaper effect exits for municipal data. According to the new methodology in panel data, Melo (2002) and Sagbas and Saruc (2004) also find the flypaper for Colombia and Turkey for local
government. For complete results of the flypaper effect can be found in Bailey and Connolly (1998).

In the case of Indonesia, a number studies concerning the intergovernmental effect have been conducted. Wirawan and Adi (2007) found that the proportion of Balance Fund is still the highest compare to other local revenue in Java and Bali. He also pointed out that the Local Own Revenue is only able to finance local government spending at maximum of 20 percent. Maimunah and Akbar (2008) indicated that DAU and PAD separately has a significant effect on local government expenditure in 35 municipalities in Sumatera. Similar result is obtained by Prakoso (2004) in the case of Central Java and Yogyakarta provinces.

Kuncoro (2007) using more sophisticated econometric analytical tools observed the existence of flypaper effect in most regencies/municipalities. His interesting finding is that the increase in local government expenditures among others is driven by fiscal competition generated by spillover especially in the surrounding areas. Widarjono (2011) also found the excessive effect of intergovernmental transfer on local expenditures in particular in less-developed regions.

However, Kang and Setyawan (2012) did not support to the existence of flypaper effect phenomenon. Those studies reveal that the flypaper effect in local government in Indonesia is still challenging. The differing results, as pointed out by Megdal (1987), might hold due to time frame, method, and aggregation data. In short, the flypaper effect is rather empirical than theoretical matter and probably the flypaper effect is not an anomaly anymore (Roemer and Silvestre, 2002). This paper contributes to the empirics focusing on the impact of special autonomy fund in Papua and West Papua province.

**METHODOLOGY**

To test the flypaper effect at regency/municipality level in Papua and West Papua Indonesia, this study refers to the previous research such as Pommerehne and Schneider (1978), Heyndels and Smolders (1994), Djoundourian (1994), Becker (1996), Dollery and Worthington (1999), Melo (2002), and Sagbas and Saruc (2004). Since we concern with the impact of intergovernmental transfers on local expenditure, we specify the model into 2 categories of income:

\[
\text{Exp} = f(\text{Private Income, Public Transfer})
\]

Furthermore, the public transfer is broken down into 2 types of grant, conditional grants (CG) and unconditional grants (UG). The function of publicly provided goods by local government may be expressed as follow:

\[
\text{Exp} = f(\text{Y, CG, UG})
\]

where:
- \(\text{Exp}\) = the capital expenditure of local government,
- \(\text{Y}\) = the local private income,
- CG consists of GPG, i.e. general purpose grant, and SPG, i.e. specific purpose grant,
- UG consists of TNTS, i.e. tax/non tax revenue sharing, SRF, i.e. special regional autonomy fund.
This study has been made on the basis of panel data models to investigate the flypaper effect on the local government expenditure. The type of model specification will determine the flypaper effect for local government spending (Bailey and Connolly (1998). In order to overcome this problem, this study uses log linear specification and the model can be written as follows:

\[
\log \text{Exp}_it = \alpha + \beta_1 \log Y_{it} + \beta_2 \log \{GPG_{it} + SPG_{it} + TNTS_{it} + SRF_{it}\} + e_{it} \quad (3)
\]

\[
\log \text{Exp}_it = \alpha + \beta_1 \log Y_{it} + \beta_2 \log \{GPG_{it} + SPG_{it}\} + \beta_3 \log \{TNTS_{it} + SRF_{it}\} + e_{it} \quad (4)
\]

Subscripts \(i\) denotes local government, \(t\) is time, and \(e = \text{random disturbance terms.}\)

The traditional theory of local public finance predicts that an increase in income raises expenditure so we expect \(\beta_1\) is positive. The estimated values of \(\beta_2\) and \(\beta_3\) are also expected to be positive. When the intergovernmental transfer rise, the local government tend to increase its expenditure. In the conventional approach, the flypaper effect is examined under the assumption that local government faces linear budget constraints. The flypaper effect is investigated by

1. Comparing the effect of income (\(\beta_1\)) and the transfers on local expenditure (\(\beta_2\)). The flypaper effect is observed if the transfer elasticity exceeds the income elasticity (\(\beta_2 > \beta_1\)).
2. The flypaper effect can also be tested by comparing the transfers elasticity exceed unity (\(\beta_2\) and \(\beta_3 > 1\)). In other words, if \(\beta_2\) and \(\beta_3 > 1\) indicate that transfers induce higher expenditure implying the occurrence of flypaper effect.

This study utilizes regencies/municipalities data of Papua and West Papua provinces throughout period of 2007 until 2011 with total of 29 and 11 regencies/municipalities respectively. Due to the altered number of regions in both provinces during the study period, the samples utilized in this study are the regions that meet the following criteria: (a) the availability of Local Budget Realization Report data (APBD); (b) regencies/municipalities that already exist and not experiencing changes (division, unification); and (c) the associated regencies/ municipalities remain receiving special autonomy fund.

Referring to those above criteria, there were only 39 sample points regencies/municipalities exerted as a sample in this study. All of the data are taken from Local Budget Realization Report data published by Directorate General of Fiscal Balance website (http://www.djpk.depkeu.go.id/). Other data come from Central Board of Statistics. This study employs regression analysis i.e. multiple regression analysis.

**RESULTS AND DISCUSSION**

Table 1 delivers the descriptive statistics of all variables under study covering mean, extreme, standard deviation, and also kurtosis values. Statistically, a variable is said to be volatile if its CV (coefficient of variation, ratio of standard deviation to mean) is more than 50 percent. Based on the empirical rule, the income is the most volatile indicated by the highest CV. The Special Purpose Grant and General Purpose Grant are relatively stable revealed by the lowest CV. This finding is intuitively reasonable because in practice GPG is allocated to pay wage/salary of civil servants. Meanwhile, SPG is intended to finance a particular project/program in the region.

Table 1
Descriptive Statistics
Table 2 reports the estimation results of log linear model based on random effect model. The upper part presents the impact of local income and transfer on government expenditure as specified in equation (3). The sign of both coefficients are positive as expected before. Statistical evaluation on local income is significantly different from zero implying that the higher income is the higher public expenditure demanded. On the average, 1 percent increase in local economic growth induces 0.32 percent increase in local expenditure.

With regard to the second variable, public transfer – unfortunately – does not statistically increase the local capital expenditure. To reject the null hypothesis that the public transfer does not induce the local expenditure, we need less than 75 percent confidence level. It implies that the flypaper effect does not exist in the case of regency/municipality in both provinces. Probably, it could explain why Papua and West Papua provinces are less developed than other provinces in Indonesia.
The lower part of the Table 2 delivered the regression result of equation (4). The increase in local private income drives up the local government expenditure as found in the first model. When we divided the public transfer into 2 types of grant, the result is quite different. General and specific purpose grants received from central government significantly rise the capital expenditure 1.65 percent on the average, much higher that of local income. Given that, we conclude the existence of the flypaper effect.

In the relation to unconditional grant, we found that the impact on capital expenditure authorities is not significant statistically. It seems that the local government is less responsive to the unconditional grants indicated by negative sign of the associated variable. Given that result, we conclude that the phenomenon of flypaper effect does not exist implying that special autonomy is not effective so far. Because capital expenditure is key aspect in infrastructure provision, the statistical result above help us to say that Papua and West Papua need more social capital.

CONCLUSION

Our analysis of public expenditure in the context of the unbalanced regency/municipality panel data in the case of Papua and West Papua provinces level for the period 2008-2011 indicates that the existence of flypaper effect is mix. The bureaucratic model could better explain the cause of the flypaper effects in the case of conditional grants because local bureaucrats have significant discretion over the spending side of the local budget.

In the case of unconditional grants, the flypaper effect does not exit. The local government relies on its expenditure form conditional grants without making good effort to increase local income by stimulating local economy. What kind of economic policy does the central government to eliminate the flypaper effect? There are two scenarios to reduce the flypaper effect: cutback in grants or an increase in local taxes. A cutback policy may be more effective since transfers increase expenditure more than increases in private income.

REFERENCES

BPS, (2011), Human Development Index 2010, Jakarta.
Local Own Revenue Optimization and Fiscal Decentralization: Does Special Autonomy Matter for Economic Growth?

Abstract

It is obvious that many local governments in Indonesia do not have significant local own revenue to support their regional spending even though the fiscal decentralization and regional autonomy have been implemented. This paper adopts tax and price elasticity method to evaluate the present local own revenue optimization in the case of Papua and West Papua provinces. The elasticity of local own revenue with respect to regional income is weak indicating that local own revenue is not responsive to the economic growth. The price elasticity is unitary implying that the local government increase the local own revenue incrementally follows the inflation rate regardless the real socio-economic conditions. Furthermore, we also found that the collected local own revenue is inefficient and suboptimal, which leads to the recommendation to improve local economic environment and reduces harmful local taxes and user charges.

Keywords: Local Own Revenue, Fiscal Decentralization, Tax & Price Elasticity, Efficiency

INTRODUCTION

Since 2001, Indonesia has been implementing fiscal decentralization and regional autonomy throughout the lower-layer governments (province, regency/municipality). The decentralization policy has given an increase of authority to local government in managing their own local finance, including revenues and expenditures. Eventually, the policy is intended to increase local economic potencies' uniqueness so can widely improve the social welfare (Bahl and Linn, 1994).

One of the characteristics of the decentralization policy is to increase local taxing power, with the objective to optimize local own revenue in supporting local spending. Consequently, the local own revenues represent a very important financial issue for every local community because their dimension assures the prosperity of the municipality. The decentralization process determined a rise of the own revenue number, giving the possibility to local authorities to finance more objectives in their community (Oates, 1993).

According to Act No. 21/2001 and then revised by the Presidential Decree No. 1/2008, Nangro Aceh Darussalam, Papua, and West Papua provinces are three local governments that are labeled special autonomy region compared to other provinces in Indonesia. In this circumstance, they receive a substantial amount of the fund from central government especially allocated to develop themselves, including General-Purpose Grant, Specific
Purpose Grant, and tax/non tax sharing revenues. However, unlike other provinces, the three regions also earn Special Autonomy Fund.

The problems that arise nowadays are the local governments too much rely upon intergovernmental transfer in order to finance their routine and development expenditures. On the other hand, the large amount of the fund does not significantly improve the socio-economic conditions. In 2010, for example, most of the municipalities in Papua and West Papua provinces have a lower human development index (BPS, 2011).

This condition is not in line with the objectives of regional autonomy, which is forming the local government independent with its local potentials. This condition led to an asymmetrical behavior in local government (Kang and Setyawan, 2012). Beyond the efficiency and effectiveness of local government expenditures, this paper would like to analyze whether the status of the special autonomy region has a positive significant impact on local own revenue optimization.

LITERATURE REVIEW

The local own revenues broadly can be divided into four categories: local taxes, local retributions, profit from local government own enterprises, and other local own revenues. The two first are the main sources of local own revenue. With regard to the local taxes, according to Act No. 34/2000, the regency/municipality is assigned to collect seven local taxes; they are hotel, restaurant, recreation, advertisement, street lighting, type C quarrying, and parking taxes. In this circumstance, the revenue-raising capacity of local governments becomes a critical point.

Theoretically, there are two broad conceptual approaches that can be taken to defining and analyzing the term capacity to raise revenue. The first is based on the concept of a community’s ability to pay for local government goods and services, also referred to as its fiscal capacity. The generally accepted view is that a comprehensive measure of the income of a person (or household or business) is the best indicator of their ability to pay taxes and charges (Musgrave and Musgrave 1989).

The revenue-raising capacity of local governments, of course, depends in a substantial measure on the ability of their communities to pay for local government services. This can be numerically measured by several indicators. The simplest one is the ratio of local own revenue to income. This is termed as tax effort. The higher tax effort is the higher local government ability to collect local own revenue. Tax effort is the most appropriate indicator of its ability to pay and hence of the fiscal capacity of its local government (Barro 2002; Bradbury and Ladd 1985).

The second measure is local tax elasticity. The tax elasticity reveals the percentage change in local own revenue with respect to the percentage change in local income. Similar to tax effort, tax elasticity indicates a proportional change in its ability to pay for local government goods/services. The tax elasticity that is more than unity represents higher fiscal capacity of its local government.

However, measures of fiscal capacity are not reliable indicators of the level of revenue that local governments do, or should, raise. It is important to note that an observed low level of revenue-raising effort in a high-income area does not necessarily indicate that it should, for
example, raise its rates. Nor does a high measure of revenue-raising effort imply that rates should necessarily be lowered (Teera and Hudson, 2004).

In this case, the second concept arises, which is based on the community’s willingness to pay for these services. In the situation where the user fees and charges for services are applied for which the user has discretion over consumption, the willingness to pay of individuals is revealed by the choices they make. The aggregate demand curves for such goods and services reflect the quantities that local government can sell at different prices. The price represents the marginal willingness of members of the local community to pay for the various quantities supplied by local government.

Most empirical studies in Indonesia, however, rely on the ability to pay concept rather than the willingness to pay concept, which requires individual preference. Kuncoro (1995) assessed the local public finance performance in the lower-layer governments in the case of 26 provinces as the pilot project of regional autonomy. He found that the local own revenue can only finance 15 percent of the total expenditure. Ironically, the lower percentage occurred at the level of regency/municipality which is the central of regional autonomy policy.

Sriyana (1999) observed the local finance performance in terms of local own revenue and local taxes. He hypothesized that they are determined by regional income and population. His estimation presented that regional income determines the local own revenue and local taxes at the level of province and did not at the regency/municipality level. In contrast, Kuncoro (2004) using simultaneous equation system found that regional income significantly influenced the local own revenue in the case of regency/municipality.

Kuncoro (2007) analyzed the dynamic interaction among revenue, expenditure, intergovernmental transfer, and regional income at the regency/municipality level. He found that there was bi-directional causality among those variables except intergovernmental transfer and regional income. He concluded that regional income causes intergovernmental transfer but the later does not cause regional income implying that regency/municipality can optimize economic growth without depending heavily on the intergovernmental transfer.

Raksaka (2011) looked at the local own revenue mobilization at the regency/municipality level throughout Indonesia. Adopting tax elasticity method, he estimated the change in local taxes and user charges with respect to change in regional income. His study revealed that most local taxes and user charges was considered not a buoyant tax suggesting that local governments need to improve discretionary tax changes at the local level.

**METHODOLOGY**

Those studies above present that the local public finance in Indonesia provides the diverse conclusion and is interesting to be explored further. This paper is closely related to the previous studies even though it contributes to the literature, at least, in two ways. First, we estimate the local own revenue in the case of the special autonomy region which has its own uniqueness. Second, we combine the ability to pay and willingness to pay approaches. We hope that the combination of the two approaches can offer wider perspective.

To test the optimization of local own revenue at the regency/municipality level in Papua and West Papua Indonesia, this study adopts tax elasticity method. Based on the literature review in the previous section, the local own revenue (LOR) depends on income (Y) representing the
ability to pay and price (P) of public goods/services indicating the willingness to pay concepts:

\[ LOR = f(Y, P) \]  

(1)

This study has been made assuming panel data models to investigate the local own revenue performance on the local government. In order to overcome this problem, this study employs log linear specification and the model can be written as follows:

\[ \log LOR_{it} = \alpha + \beta_1 \log Y_{it} + \beta_2 \log P_{it} + e_{it} \]  

(2)

Subscripts i denotes local government, t is time, and e = random disturbance terms.

The traditional theory of local public finance predicts that an increase in income will rise own revenue, so we expect \( \beta_1 \) is positive. The estimated value of \( \beta_2 \) is also expected to be positive. When the public goods/services rise, the local government tends to increase its revenue. In the conventional microeconomic approach, the local own revenue is similar to total revenue of a producer in private sector which is heavily determined by quantity and price.

The local own revenue is examined under the assumption that local government faces linear budget constraints to supply public goods/services. Given that, we can test some restrictions imposed into equation (2):

\[ \beta_1 = 1; \text{ i.e. regional income is unitary elastic} \]
\[ \beta_2 = 1, \text{ i.e. price is unitary elastic} \]
\[ \beta_1 + \beta_2 = 1, \text{ i.e. constant return to scale} \]  

(3)

The test is done using both analysis of variance (F-test) and chi-square (\( \chi^2 \)-test) tests for each parameter restriction imposed (see for example: Gujarati, 2004).

This study utilizes regencies/municipalities data of Papua and West Papua provinces throughout the period of 2007 until 2011 with a total of 29 and 11 regencies/municipalities respectively. Due to the altered number of regions in both provinces during the study period, the samples utilized in this study are the regions that meet the following criteria: (a) the availability of Local Budget Realization Report data; (b) regencies/municipalities that already exist and not experiencing changes (division, unification); and (c) the associated regencies/municipalities have complete all the required data.

Referring to those above criteria, there were only 81 sample point's regencies/municipalities exerted as a sample in this study. All the data are taken from Local Budget Realization Report data published by Directorate General of Fiscal Balance website (http://www.djpke.depkeu.go.id/). Other data come from Central Board of Statistics (http://www.bps.go.id). This study employs regression analysis, i.e. multiple regression analysis and applied for unbalanced panel data by assuming all requirements in the regression analysis are satisfied.

As stated before, local own revenue is the summation of local taxes, local retributions, profit from local government own enterprises, and others. The LOR is measured in the current price (million Rupiah). The regional income is specified by total final goods/services produces in
2000 constant price (million Rupiah). The price of public goods/services data is not available. For this reason, we use general price index or more specifically implicit regional gross domestic product deflators as a proxy (2000 = 1).

RESULTS AND DISCUSSION

Table 1 delivers the descriptive statistics of all variables under study covering mean, extreme, standard deviation, and also kurtosis values covering all regions. Statistically, a variable is said to be volatile if its CV (coefficient of variation, a ratio of standard deviation to mean) is more than 50 percent. Based on the empirical rule, the local own revenue is the most volatile indicated by the highest CV. The variability of regional income is also high which the maximum values are more than 12 trillion contributed by Mimika. The public goods/services price is relatively equal across the region revealed by the lowest CV.

Table 1
Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>LOR</th>
<th>Y</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>25589.6079</td>
<td>815714.7</td>
<td>1.9628</td>
</tr>
<tr>
<td>Median</td>
<td>10525.7900</td>
<td>310251.7</td>
<td>1.8968</td>
</tr>
<tr>
<td>Maximum</td>
<td>704527.0300</td>
<td>12439150.0</td>
<td>4.2218</td>
</tr>
<tr>
<td>Minimum</td>
<td>1080.6700</td>
<td>54180.0</td>
<td>0.8673</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>78575.2581</td>
<td>1810423.1</td>
<td>0.5381</td>
</tr>
<tr>
<td>Skewness</td>
<td>8.1230</td>
<td>5.3449</td>
<td>1.4001</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>70.5635</td>
<td>32.4691</td>
<td>6.6975</td>
</tr>
<tr>
<td>CV</td>
<td>3.0706</td>
<td>2.2194</td>
<td>0.2742</td>
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</tbody>
</table>

All of variable's interest is asymmetrically distributed (bell-shaped) indicated by the high value of skewness, especially LOR and Y. Intuitively; the null hypotheses that the series data is normally distributed can be rejected. The upper tail of the distribution is thicker than the lower tail (indicated by the positive values of skewness) and the tails of the distribution are thicker than the normal (indicated by the kurtosis coefficient is greater than 3).

Table 2 reports the estimation results of log linear model based on a random effect model as specified in equation (2) for Papua, West Papua, and both provinces respectively. The signs of both coefficients are positive as expected before. Statistical evaluation on local income is significantly different from zero implying that the higher income is the higher local own revenue collected. On the average, 1 percent increase in local economic growth overall induces 0.32 percent increase in local government revenue.

With regard to the West Papua, the coefficient of local income is too small and – unfortunately – does not statistically increase the local own revenue. It implies that the ability to pay for goods/services delivered by local government is weak enough. This result is similar to Sriyana (1999) study. However, according to Ardani (1992), the income data in regency/municipality level are less well estimated compared to provincial or national data.
Moreover, West Papua province was established in 2004 so the quality of data is still questionable.

<table>
<thead>
<tr>
<th>Dep. Var: Log (LOR)</th>
<th>Papua</th>
<th>West Papua</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coeff.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>5.740773</td>
<td>8.041580</td>
<td>6.327335</td>
</tr>
<tr>
<td>t-stat</td>
<td>7.702972</td>
<td>7.286023</td>
<td>10.464650</td>
</tr>
<tr>
<td>Log (Y)</td>
<td>0.470452</td>
<td>0.000472</td>
<td>0.321725</td>
</tr>
<tr>
<td>t-stat</td>
<td>3.692906</td>
<td>0.002464</td>
<td>3.255189</td>
</tr>
<tr>
<td>Log (P)</td>
<td>1.428382</td>
<td>2.062844</td>
<td>1.693838</td>
</tr>
<tr>
<td>t-stat</td>
<td>2.632086</td>
<td>2.608735</td>
<td>4.178217</td>
</tr>
<tr>
<td>R-sq</td>
<td>0.395621</td>
<td>0.198357</td>
<td>0.306686</td>
</tr>
<tr>
<td>F</td>
<td>13.74640</td>
<td>4.082738</td>
<td>17.25158</td>
</tr>
<tr>
<td>N</td>
<td>45</td>
<td>36</td>
<td>81</td>
</tr>
</tbody>
</table>

On the conversely, the coefficient of price is statistically significant suggesting that the increase in local own revenue is driven rather by the willingness to pay than an income increase. The newly special autonomy region status probably could explain why regency/municipality governments in West Papua province are less sensitive to the regional economic developed. Meanwhile, the community expects too much to the local government in terms of the high willingness to pay along with regional autonomy euphoria.

So far, we have talked about the determinants of local own revenue. In the next section, we will answer the main question, whether the local own revenue collection has been already optimal. In absolute term, the local tax elasticity presented in Table 2 is less than unity. It seems that the increase in local own revenue is slower than that in income implying that the tax effort is low in relation to the local tax base.

Table 3 presents the result of statistical tests based on some restrictions imposed into the regression equation. By imposing coefficient of regional income equals to unity ($\beta_1 = 1$); the result shows that we can reject it in all provinces. The corresponding coefficient statistically does not equal to unity implying that the local own revenue is inelastic with respect to income. Refer to Raksaka (2011), this probably reveals that not all local taxes and charges in regency/municipality in both provinces are buoyant.

Furthermore, imposing coefficient of public foods/services price equals to unity ($\beta_2 = 1$), the result shows that we can accept it in all provinces. The corresponding coefficient statistically equals to unity implying that the local own revenue is unitary elastic with respect to price. It implies that, in one hand, the change in local own revenue is proportional to the change in price. On the other hand, the local government increases the local own revenue incrementally follows the inflation rate instead of the real socio-economic local condition dynamics. This is a common figure in almost local governments in Indonesia either at the provincial or regency/municipality levels. Eventually, it helps us to conclude that there is asymmetric behavior in local governments.
Table 3
Test of Restrictions

<table>
<thead>
<tr>
<th>Restrictions</th>
<th>Papua</th>
<th>West Papua</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$F; \chi^2$ - Stat</td>
<td>Prob.</td>
<td>$F; \chi^2$ - Stat</td>
</tr>
<tr>
<td>$\beta_1 = 1$</td>
<td>17.27886</td>
<td>0.0002</td>
<td>27.17806</td>
</tr>
<tr>
<td></td>
<td>17.27886</td>
<td>0.0000</td>
<td>27.17806</td>
</tr>
<tr>
<td>$\beta_2 = 1$</td>
<td>0.623123</td>
<td>0.4343</td>
<td>1.806618</td>
</tr>
<tr>
<td></td>
<td>0.623123</td>
<td>0.4299</td>
<td>1.806618</td>
</tr>
<tr>
<td>$\beta_1 + \beta_2 = 1$</td>
<td>2.940798</td>
<td>0.0937</td>
<td>2.099493</td>
</tr>
<tr>
<td></td>
<td>2.940798</td>
<td>0.0864</td>
<td>2.099493</td>
</tr>
</tbody>
</table>

The third restriction is an assumption of the existence of constant return to scale ($\beta_1 + \beta_2 = 1$), i.e. the sum of magnitude coefficients of income and price are imposed equals to unity. The local own revenue is said to enjoy a constant return to scale when the increase in both income and price induce proportionally the local own revenue increase. In such a case, the local own revenue is then said to be efficient.

The statistical tests show that we can accept the restriction only for West Papua province. To reject the null hypothesis that the local income and public goods/services price do not induce proportionally the local expenditure, we need less than 85 percent confidence level. However, it does not mean that regency/municipality in West Papua province experiences constant return to scale. Remember that the partial analysis proves statistically that $\beta_1 = 0$ and $\beta_2 = 1$.

Entirely, all regency/municipality in both provinces has not enjoyed a constant return to scale yet or even experienced increasing return to scale. It implies that the local own revenue collection is not efficient. Consequently, it is not optimal yet and potential to be explored further. Probably, it could explain why Papua and West Papua provinces are relatively less developed than other provinces in Indonesia.

**CONCLUDING REMARKS**

This paper analyzed the local own revenue optimization in the special autonomy region, i.e. Papua and West Papua provinces. The study employed secondary data published by formal institutions focusing on the unbalanced panel data at the regency/municipality level. The motivation of this paper is triggered by the fact that many local governments in Indonesia do not have significant local own revenue to support their local spending even though in the period of fiscal decentralization and regional autonomy.

This paper adopts tax elasticity method to evaluate the present local own revenue optimization in the case of Papua and West Papua provinces. The elasticity of local own revenue with respect to regional income is less than unity indicating that local own revenue is not responsive to the economic growth. Regarding the price elasticity, all local governments increase incrementally follows the inflation rate. Most taxes and user charges, which are the
main sources of local own revenue, are considered not a buoyant tax. The tax elasticity
together with price elasticity indicates increasing return to scale implying that the local own
revenue collection is suboptimal and potential to be explored deeply.

Based on those findings, we suggest that local governments need to improve discretionary tax
changes at the local level, such as local base changes, collection changes, and enforcement
changes. Furthermore, the study leads to the recommendation to improve local business
environment, such as streamlining local regulations and reducing harmful local taxes and user
charges. Finally, it is important to consider that intergovernmental grants (especially Special
Regional Autonomy Fund) should become a requirement for the local government to increase
local tax capacity.

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This research is in response of management performances of schools which are still inadequate and impact on the education quality schools provide. This research is also to produce new innovative management system design. This research uses research and development approach and spends 3 years. In the first year, we use need assessment to identify and fetch the premier data, references and the exploration of human resources in the schools. In the second year, we proceed to the development of the model. In the third year, we end to the evaluation of the data collections through taking samples to be interviewed and documentation of references. In the result, we find some important teachers’ competencies include: (1) team leader, (2) result orientation, (3) oral communication, (4) customer focus, (5) achievement orientation, (6) problem solving, (7) computer literacy, (8) listening, (9) stress oriented, (10) applied learning. The analysis numbers showing the result is still good in various levels of schools.

Keywords: Management of Schools, Education Quality, Teachers’ Competencies

Introduction

The performance of education institutions, especially schools nowadays are expected to be able to maximize the transfer of knowledge within optimizing the development of students. Education sector is considered as the agent of change which is potential to emerge the development and shape the character of nation and civilize the citizens. Management of an educational institution is essentially not only to maintain its existence but also at the same time led schools to produce output according to the demands and needs of the community. In order service and the quality of education can be realized well, it must be supported by good performance by all components inside the institutions because schools that fail to compete will fail to compete answering market’s demands.

In accordance with that analysis, the challenges educational institutions (schools) should face today is how to manage a school that should survive providing the needs of the user of community, academically and administratively. However, to provide the best schools the
institutions often experience several dilemmas. Because only school that survive are able to prevail the needs of the user of community, while those which cannot survive will eventually abandoned for failing to fulfill its promises. Many institutions that were once great school eventually closed or have long operational but are difficult to develop.

Due to that, the authors believe that the school failures are caused by fundamental factors, namely the lack of managerial skills of a high school principal in managing the school, because the school management system almost entirely concentrated on the principal as manager. Various organizational theories are still believed that all managers (principals) must be able to perform its function and its role in management practices. According to Griffin (2004: 7); Lussier (2009: 13); Robbins and Coulter (2007: 9) a manager must be able to perform four functions, namely: design, organization, leadership, control and simultaneously execute that role: the role of management, interpersonal, informational and decision-making. Luthans (2006: 121) based on the results of meta-analysis concluded that the effective performance of an organization is strongly influenced by the factors of leadership (managers). He concluded essence of leadership is the main controller of the retention and loyalty of employees, where the turnover rate is high enough, and a high level of leadership as a construct that affects the employee to the future, the vision, values and cultural creation.

Based on preliminary studies in several schools both public and private, it is known that the managerial school is still difficult to determine the exact criteria of success for the school and connect with the ability, skills and characteristics of existing personnel and required to produce maximum performance. Finally, the school does not have a plan and strategic objectives in creating a competitive advantage.

Quoting what Hardjosoedarmo (2004: 36) says. That the failure of a school institution caused by several things, including: (1) there is not enough appreciation of the urgency of the change from school personnel, (2) the absence of a strong core group, (3) there is no leadership vision clearly, (4) no available school resources, (5) there is no systematic action plan to achieve short-term benefits, (6) are too easily satisfied with the results achieved, and (7) is not supported by the transformation of the organizational culture. Furthermore, Sagala (2007) says that in terms of educational problems are always covered almost 80% ranged in development of curriculum issues, packaging material, teaching methods and media, education and training of teachers and matters related to teaching and learning, while the problems structural (institutional management of education) has barely got a touch and adequate attention.

In this regard, the system of administration or management problems in schools needs attention through research and development. Through the design of competency management system model (competency management system) which will be in this study. The expected results will help the school management in managing and developing administrative systems education services, so that schools can plan its strategic objectives to achieve a competitive advantage as well as to develop human resources in achieving their best performance. The purposes of this study are: (1) designing a competency model management through exploration expertise, knowledge and skills of personnel employed at the school, (2) measure the impact of behavior for the growth and development of competency models, (3) applying a model of competence in schools to become a quality management system based on school education services.
**Literature Review**

Many good organizations which engage in business, industry and education services found that the key to achieving the highest level of competence of the organization is the ability to maximize the benefits of the organization, such as a product known to the public, technology, assets, quality education programs and others. One of the keys to gain successes in operating the organization is the human resources (HR) inside the enterprises. Mathis and Jackson (2005:43) states that the value of a product is determined by how effective the communication which generates the benefits of these products, so it can be acceptable to consumers and they cannot be separated from the human resource capacity within the organization to use the most appropriate performance.

Today, there has been a clash of paradigm in the field of management. Many management experts in the field believe that the increase in performance and productivity are directly related to how to manage human resources is good and is no longer on the availability of tools (technology) as well as funds. Robbin and Coulter (2007: 35) states that many modern organizations now claim that people (human resources) are our most important asset.

In the study of competency models to focus more on how the strategic planning process and more about to apply human resource management functions to achieve competition. Sallis (2010: 58) states in education, competitive concept also deals with how to improve the quality of education in the process of education and teaching and quality assurance and quality management. Improving the quality of education must also be supported by resource quality educators. This is in accordance with the Law. 14 year 2004 on Teachers and Lecturers, which states that a teacher and lecturer has four competencies required, namely (1) personal competence, (2) social competence, (3) pedagogical competence, and (4) professional competence.

The competence in the assessment of human competence model is an important factor that must be developed, maintained, and improved, because it can provide benefits and advantages for the organization. Spencer and Spencer (1993) defines competence as a number of individual characteristics associated with the reference criteria of expected behavior and performance in a job or situation that is expected to be met. Slocum and Hellrigel (2009: 7) states that natural talent and competence include study skills needed to succeed in completing a variety of tasks. Ability is a natural gift that helps employees learn specific tasks faster and does it better. Stated an organization will have an advantage if it is able to develop the competencies of human resources of the organization, where one of the approaches is the balanced scorecard of Kaplan and Norton, 2002. Balanced scorecard is the basis for implementing management competency model development. Balanced scorecard is a model strategy that has been able to improve the quality of its implementation on a variety of service companies. Kaplan and Norton, states that by applying the competency model, organizations will more easily integrate and analyze each of perspectives that exist in the organization and planning, so that the process of achieving the organization's strategic goals more measurable. With the model of balanced scorecard objectives and measures view organizational performance from four perspectives, namely: (1) financial, (2) customer, (3) internal business processes, and (4) learning and growth.

Furthermore, according to Kaplan and Norton stated that the development of management competencies providing executive management organizations can now measure how much of their business units are able to create value for customers (consumers) organization's current
and future. This model includes a variety of value-creating activities generated by organizational participants who have the ability and motivation. Many organizations already have a performance measurement system that includes a variety of financial and non-financial measures. According to Manopo (2010: 27) as for the benefit of the implementation management competency model development, among which are: (1) recruit the best people in accordance with the work and needs of the school, (2) maximize productivity, (3) provide an opportunity to press feedback 3600, (4) adaptation to change, and (5) linking behavior to the strategy and values of the organization.

In school management, Sagala (2007: 64) said that the management competency model emphasizes that all financial and non-financial measures should be part of the personal information system for all levels of school management. Manopo (2010: 21) by applying to the school competency model focusing on the realm selection, training and development, performance appraisal and career planning that must have an effect on an individual' achievement according to area and their respective duties. Mentioned competency development over tactical or operational measurement system. Kessler (2009: 25) stated how large organizations improve internal capabilities and investment in human resources. The assumption, that in an organization there are many behaviors that are necessary and the implementation will be different within and between organizations. The behavior of ‘x’ allows effective in one area and a specific organization, but may not be effective in the area or other organization. Ivancevich, et al (2005: 15) said that to achieve the best performance of the organization, management must have the capability of identifying abilities, skills and personal characteristics of the people in the organization.

According to Manopo (2010: 29) that a competency model leads to two kinds of important questions, namely (1) whether the skills, knowledge, and characteristics required in the job, and (2) what behaviors have a direct impact on the performance and success on the job. Where did Hardjoesoedarmo (2004:36) in implementing competency models are management principles that must be implemented, namely: (1) the school must be able to draw up plans and position themselves according to ability and potential, which optimizes all available school resources to achieve the objectives of the school, (2) be able to respond to strategic issues such as school-based management, curriculum unit level of education, teaching contextual, and so the school management to improve quality, and (3) emphasize objectivity, scientific and systematic strategy for implementation.

The model also describes the combination of behavioral competence between knowledge, skills with the characteristics required for its role in the organization in an effective and appropriate performance. Where Spencer and Spencer (1993:34) divides competence in 2 dimensions, namely (1) orientation for achievement, and (2) initiative. Dubois (1993: 65) classifies the human dimensions of competence, namely (1) applied learning, (2) integrity, (3) impact, (4) initiating action, (5) follow-up, (6) aligning performance to success and success, (7) change leadership, and (8) coaching. While Kessler (2009: 27) divides the dimensions of organizational competence (1) analysis, (2) quality orientation, (3) customer focus, and (4) decision making.

**Methodology**

The method used in this research is descriptive quantitative approach. the findings and research data is described with a value approach. This research is a development (developmental research). In the first year of this research is the exploration of research, which includes observation and data collection.
The population was elementary school teachers (Sekolah Dasar), middle school (Sekolah Menengah Pertama) and high school (Sekolah Menengah Atas) Public and Private in the city of Medan numbered 3420 people. Samples peneliti (respondents) are school teachers in elementary, middle and high school are taken by schools that have been determined. Sampling technique using purposive sampling, the samples were intentionally set. This is how I did considering the study population very much. According Arikunto (2010: 58) purposive sampling (samples intended) that the researchers used sampling techniques if researchers have certain considerations in determining sample. In connection with that, the sample is determined by:

1. School studied is located schools and districts are where the abode of the researchers.
2. Schools studied are schools with quality classifications that independent pre school (SPM) and the pre-school national standards (Pre SSN) and national standard schools (SSN), it is determined as follows:

   a. For independent pre school at the primary level by 2 school, junior high school and as much as 2 to as many high school 1 school.
   b. For pre-school school national standards at primary school level by 2 school, junior high school and as much as 2 to as many high school 1 school.
   c. National standards for school at the primary level by 2 school, junior high school as much as 2 and as many as 1 school to high school.

Samples are specified grade level teachers, elementary, middle and high schools are being used as well as private study. These schools and the number of data sample:

<table>
<thead>
<tr>
<th>No</th>
<th>EDUCATION LEVEL</th>
<th>NAME OF SCHOOL</th>
<th>REGION</th>
<th>SAMPLE NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SD (Elementary)</td>
<td>SD Negeri No 060971</td>
<td>Medan Tuntungan</td>
<td>6</td>
</tr>
<tr>
<td>2</td>
<td>SD Negeri No 064025</td>
<td></td>
<td>Medan Tuntungan</td>
<td>12</td>
</tr>
<tr>
<td>3</td>
<td>SD Negeri No 067242</td>
<td></td>
<td>Medan Sunggal</td>
<td>17</td>
</tr>
<tr>
<td>4</td>
<td>SD Muhammadiyah 12</td>
<td></td>
<td>Medan Helvetia</td>
<td>19</td>
</tr>
<tr>
<td>5</td>
<td>SD NurulAzizi</td>
<td></td>
<td>Medan Sunggal</td>
<td>12</td>
</tr>
<tr>
<td>6</td>
<td>SD RahmadIslamiah</td>
<td></td>
<td>Medan Helvetia</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>73</strong></td>
</tr>
<tr>
<td>1</td>
<td>SMP Middle High</td>
<td>SMP Muhammadiyah 4</td>
<td>Medan Helvetia</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>SMP Swasta IKAL</td>
<td></td>
<td>Medan Sunggal</td>
<td>6</td>
</tr>
<tr>
<td>3</td>
<td>SMP BinaSaudara</td>
<td></td>
<td>Medan Baru</td>
<td>8</td>
</tr>
</tbody>
</table>
In this study, data was collected primary data sourced from the observations as much as 133 respondents consisting of 73 respondents from elementary school classroom teachers, 41 classroom teachers and 19 junior high school classroom teachers. Before data analysis first tested the normality of data research. It is necessary to determine whether the samples taken have representatives of the population. For hypothesis Ho assumed "that the data came from a normally distributed population." Decisions will be made if the confidence level (sig) accounted result is greater than the level of confidence at $\alpha = 0.05$ or $0.01$. It was concluded that the sample comes from a normally distributed population. Significant at $\alpha = 0.05$ and $0.01$ for Sig (*) $0.200> 0.05$ and $0.01$. This means that research data is the data that presentatif as research data. Furthermore, to test the connection to see if there is a correlation between respondents within each stratum using Chi Square formula:.

$$\chi^2 = \sum_{i=1}^{b} \sum_{j=1}^{a} \frac{(O_{ij} - E_{ij})^2}{E_{ij}}.$$  

Reckoning system with $\alpha = 0.01$ and df = (3-1) (6-1) = 10, in the table can be chi squared $= 23.2$ is smaller than the chi squared $= 34.98$ count. Concluded there is a relationship between each of the research data. Furthermore, this study procedure consists of several steps or stages that do, are as follows:

Step 1: Observation and Data collection.
Activities in this stage aims to study things that are considered critical and important issues related to the role and performance of routine activities that already exist in the school. Here, the researchers first determine the population of existing positions (s) prior to the interview and group discussion. Activity data collection does the reviewing and analyzing documents the work of the respondents are required to identify activities and behaviors needed next. As for the stages of the research process, namely:

1. Identify the inputs, processes and outputs, namely the identification of work procedures, work activity and display the results of the work.
2. Determine the objective of identifying the quality of work, cost, flexibility, security and comfort of work.
3. Establish indicators, which define indicators for each activity.
(4) Connecting with a particular role, which connects each activity or activity with a specific role.

Step 2: Collecting and Processing Data
The next step is to collect and process data from all the activities and work activities that have been identified based on job descriptions, processes, work procedures, performance indicators. Data summarized into information to be validated through a process of discussion and interviews with the holder of the highest office in the school.

Step 3: Define and Validation of Competency
Based on observations, interviews, surgical data and focus group discussions, the next step is to determine and map the competencies that are known, and then make the type of competencies and competency definitions and behavioral criteria that are expected to emerge. Furthermore, validating the competencies actually require charged position or office. The procedure of this research using large line described as follows:

Data sourced research that the author collected from respondents in several elementary schools, junior high schools and high schools, both public and private, in the city of Medan which has been determined through the above mechanisms. Data collection in this study using the following techniques:

1. Observation. Observation is done by observation and tracking the activities and events of all respondents and school activities as a whole in order to start data collection. Observation tool to use list / sheet observation with the observed dimensions of competency 10 (ten) with elaboration grain dimensions were 38 items about the observations.
2. Interview. Interviews were conducted in order to identify the competencies of the position holder in the school and other personal directly, using the list of interviews that have been prepared ahead of time.
3. Documentation. Documentation made for the collection of data that has been available in schools descriptions related to the job and the work of all personnel in the school.
The observation instruments as follows:

<table>
<thead>
<tr>
<th>Competency</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team Leadership</td>
<td>Being able to ensure the group has all the information necessary, explain all decisions enforced and how the role of each individual contributing to the achievement of goals and works to achieve effectiveness, morale and productivity, and build team spirit. Being able to make other people take part in the mission, goals, agenda, climate and policy groups and a good example for their members.</td>
</tr>
<tr>
<td>Result Orientation</td>
<td>Ability to monitor performance and improve work processes, formulate measurable objectives and challenges, and analyze the costs and benefits ..</td>
</tr>
<tr>
<td>Oral communication</td>
<td>Ability to convey information clearly, showing a professional attitude, and be able to explain problems or complex issues and procedures with the language and easy to understand. Maintaining the listener's attention through the use of techniques, motode-methods, body language and noise suppression. Seeking input from listeners, check for understanding, presenting the message in different ways to enhance understanding of the listener.</td>
</tr>
<tr>
<td>Costumer focus</td>
<td>Trying to understand the customer, actively seeking information to understand the situation, problems, expectations and needs of customers and to build a close and collaborative relationship with customers.</td>
</tr>
<tr>
<td>Orientation for achievement</td>
<td>Having passion to try, a high degree of awareness of the business and the completion of the work in a more well above the standard that has been set</td>
</tr>
<tr>
<td>Problem Solving</td>
<td>Determining the root of the problem by asking the right questions, reviewing documentation, determine possible causes, take appropriate action to address the issues that arise.</td>
</tr>
<tr>
<td>Computer literacy</td>
<td>Knowing how to use a computer system to obtain information, analyze data, find problems, and communicate internally and improved computer technology-based services.</td>
</tr>
<tr>
<td>Listening</td>
<td>Being able to respond and pay attention to the feelings and messages that would be submitted by the speaker Being able to pay attention to facts and details presented.</td>
</tr>
<tr>
<td>Stress Tolerance</td>
<td>Able to cope with work pressure, uncertainty, and the possibilities are going to achieve effectiveness Being able to stay calm and deal with events that are not expected to be good.</td>
</tr>
<tr>
<td>Applied Learning</td>
<td>Being able to encourage others to participate actively in the activities and the learning process (notes, ask questions, discussions, tasks). Gaining knowledge, understanding or skills through both formal and informal learning quickly Can apply the knowledge or skills to practical use on the job, learning more through trial and error method.</td>
</tr>
</tbody>
</table>

Data were analyzed using descriptive quantitative techniques, which describe and analyze the data obtained during the study with an average approach, percent, standard deviation, and
variance, also testing validity and reliability of data using triangulation approach with carefully collected evidence from many different sources and remain detailed records of interviews and observation. Display of the results of data calculations are presented in the form of frequency tables, diagrams (chart), and statistical calculations.

Empirical result and discussion

The observations of the respondents for each of the elementary, junior high and high school, and based on the results of the analysis of the data summary competence respondents at the high school, which may explain some of the conclusions:

1. Average competence team leader at 4.09, which means teachers' competence team leader in both categories.
2. In average competence orientation result of 4.29, which means a good competence of teachers orientation result?
3. Average oral communication competency of 3.88 which means the oral communication competency of teachers enough.
4. Average of 4.21 a customer focus competency customer focus better teacher.
5. Average achievement orientation of 3.81 which means that the orientation of teacher competence enough.
6. Average problem solving competence of 4.44, which means a good teacher problem-solving competence.
7. Average computer literacy competency of 4.07, which means a good competence of computer literacy teacher.
8. Average competence of 4.03, which means listening competence good teacher.
9. Average handling competence stes of 4.44, which means a good competence of teacher stress management.
10. Average competence applied learning amounted to 4.10, which means a good competence of applied learning teacher.

Here is the curve that describes the percentage of teachers competency categories of high school in Medan is presented in the chart below:

Figure 2: Graph Percentage of Respondents SMA
Description:
Sangat Baik= Very Good
Baik = Good
Junior High school teacher competence described the findings as follows:
1. Average competence team leader at 4.1, which means teacher competence team leader in both categories.
2. Competence in average result of 4.3 orientation meaning teacher competence orientation good result.
3. Average oral communication competencies of 3.7, which means oral communication competencies of teachers enough.
4. Average of 4.1 customer focus competency customer focus is good teachers.
5. Achievement orientation average of 3.6, which means the orientation of teacher competence enough.
6. Average of 4.2 problem solving competence significant problem-solving competence good teacher.
7. Average computer literacy competencies of 4.1, which means a good competence of computer literacy teacher.
8. Average listening competencies of 3.9, which means listening competence good teacher.
9. Average handling competencies of 4.1, which means a good competence of teachers’ stress management.
10. Average applied learning competencies of 4.2, which means a good competence of applied learning teacher.
11. It was concluded that the overall competence of the teachers in junior high schools by an average of 4.0 with either category.

Based on the analysis above percentages competency categories generally concluded that:
1. Overall competency of junior high teachers was observed in the category of very good by 21.9%.
2. Overall competency of junior high teachers was observed in either category at 60.9%.
3. Overall competency of junior teachers was observed in enough categories at 14.7%.
4. Overall competency of junior high teachers was observed in the low category of 2.0%.
5. Overall competency of junior high teachers was observed in the category of very low at 0.3%.

Here's the curve that describes the percentage of respondents in junior high competence are presented in the chart below:

Figure 3: Graph Percentage of Respondents Junior High School Competence
Description:
SangatBaik= Very Good
Baik = Good
Cukup = Enough
Rendah = Low
SangatRendah = Very Low

Furthermore, the results of a primary school teacher competence, as follows:
1. Average competence team leader at 4.3, which means teacher competence team leader in both categories.
2. Competence in average result of 4.2 orientation meaning teacher competence orientation good result.
3. Average oral communication competencies of 3.7, which means oral communication competencies of teachers enough.
4. Average of 4.0 customer focus competency is good teachers.
5. Achievement orientation average of 4.1, which means the orientation of teacher competence enough.
6. Average of 3.6 problem solving competence significant problem-solving competence good teacher.
7. Average computer literacy competencies of 4.1, which means a good competence of computer literacy teacher.
8. Average listening competence at 4.0, which means a good competence of teachers listening.
9. Average handling competence of 4.1, which means a good competence of teacher stress management.
10. Average applied learning competencies of 4.2, which means a good competence of applied learning teacher.
11. Average handling competence of 4.1, which means a good competence of teacher stress management.
12. It was concluded that the overall competence of teachers at the primary level by an average of 4.1 with either category.

Based on the analysis on each of the indicators, the general conclusion can be drawn, namely:
1. Competence of elementary school teachers in the city field in the excellent category at 26.2%.
2. Competence of elementary school teachers in the city of Medan in both categories at 61.9%.
3. Competence of elementary school teachers in the city of Medan in enough categories by 10%.
4. Competence of elementary school teachers in the city of Medan in the category of less than 1.5%.
5. Competence of elementary school teachers in the city of Medan in this category is less by 0.4%.

Here is the chart for the percentage of respondents of Elementary level indicator on each questionnaire is presented in the following figure:
Figure 4: Percentage of Respondents Competence Elementary School
Description:
SangatBaik = Very Good
Baik = Good
Cukup = Enough
Rendah = Low
SangatRendah = Very Low

Subsequent analysis the Chi square test (Chi Square). The test is intended to determine whether there is a relationship between the respondent level assessment in elementary, junior high, and high school to the management. The hypothesis that "there is a relationship between the respondent answers or assessment level, elementary, middle and high school in Medan".

The analysis is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Responden SD (Primary School)</th>
<th>SMP (Junior High)</th>
<th>SMA (Senior High)</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SB</td>
<td>574</td>
<td>547,36</td>
<td>154</td>
</tr>
<tr>
<td></td>
<td>B</td>
<td>1355</td>
<td>1341,23</td>
<td>339</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>219</td>
<td>255,83</td>
<td>66</td>
</tr>
<tr>
<td></td>
<td>R</td>
<td>34</td>
<td>34,03</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>SR</td>
<td>8</td>
<td>9,88</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>TT</td>
<td>0</td>
<td>1,64</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2190</td>
<td>1229</td>
<td>570</td>
<td>3989</td>
</tr>
</tbody>
</table>
Description:
SB = Very Good
B = Good
C = Enough
R = Low
SR = Very Low
TD = Unobservable

Chi Square formula:
$$\chi^2 = \sum_{i=1}^{B} \sum_{j=1}^{E} \frac{(O_{ij} - E_{ij})^2}{E_{ij}}$$

$$= \frac{(574 - 547.36)^2}{547.36} + \frac{(269 - 307.17)^2}{307.17} + \frac{(154 - 142.46)^2}{142.46} + \frac{(219 - 255.83)^2}{255.83}$$
$$+ \frac{(181 - 143.57)^2}{143.57} + \frac{(66 - 66.68)^2}{66.68} + \frac{(34 - 34.03)^2}{34.03} + \frac{(24 - 19.10)^2}{19.10} + \frac{(4 - 8.85)^2}{8.85}$$
$$+ \frac{(8 - 9.88)^2}{9.88} + \frac{(4 - 5.54)^2}{5.54} + \frac{(6 - 2.57)^2}{2.57} + \frac{(0 - 1.64)^2}{1.64} + \frac{(2 - 0.92)^2}{0.92} + \frac{(1 - 0.42)^2}{0.42}$$

$$= 34,986978$$

Summary with $\alpha = 0.01$ and $df = (3-1)(6-1) = 10$, in the table can be chi squared = 23.2 is smaller than the chi squared = 34.98 count. It was concluded that there was a significant relationship between the observations of the respondent whether at elementary, junior high and high school. That is, although the respondents consist of 3 (three) levels of the elementary, middle, and high schools generally have competencies that are not much different.

Based on the analysis of teacher competence elementary, junior high and high school in the city of Medan, will be described some basic implications associated with the research, including the following:

1. The results show that teachers elementary and secondary SMA in Medan had been satisfied on indicators vision, mission, expectations, facilities-facilities, discipline and security, accomplishment, but there are some indicators that have not otherwise satisfied, including teacher indicators, cost and role of parents. Associated with the services of teachers, according to the respondent’s still remains disappointment. Management should empower school and be able to do so immediately by providing the freedom and authority to teachers to participate in improving the quality of service the school, because the teacher is the object of most information first and foremost in the education process in schools. Whether it's teaching skills, academic administrative services, attitude and behavior, even nurture students’ mental and spiritual, always gives a sense of security and comfort for students to learn. Do not let the students and parents feel that school learning is never a fun thing for them because of the teacher. Do not let the learning teachers always give a negative response to the students so that they can kill the spirit of achievement students, because the teacher is not only a transformation of science but also as an influencer for students.

2. Relating to exploration results at 10 competencies above, in reality the average teacher competence in either category. This suggests directing teachers have basic competency referred to this study. Therefore, the school management should be able to develop and improve the competence of teachers through better empowerment.
through surrender of authority, policy of, and decision-making as well as through training of quality human resources in schools continues to be enhanced to support the achievement of the quality of service and excellence of the school.

(3) Although indicators of decision-making by the school leadership is relatively good, but the role of the teacher is crucial in improving school services, due to their role as the agent of power in education. Therefore school management must always communicate any form of policies and decisions of the school to all teachers.

**Conclusion and implication**

Based on the analysis of the above data, the conclusions of this study are as follows:


(2) There was a significant relationship between the dimensions of competence of teachers at both the elementary and secondary school seen from the analysis of the indicators. That is, although the respondents came from different schools and units in general have the same competence (not much different).

The suggestions put forward related to the research findings:

(1) In order for the school management to explore and develop the competencies of human resource in schools to improve the quality of service at the school.

(2) In order for human resource competencies in schools to support performance and quality school service, the school management should empower human resources. This is an effort to encourage teachers and staff to develop competencies to the fullest.

(3) Management schools can develop their human resource competencies through competency development training (self-competency).

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**REFERENCES**


The Competing Determinants of Successful Decentralization Policy: Does Special Autonomy Fund Really Accelerate Economic Growth?

Abstract

The impact of fiscal policy on economic growth has been recognized widely. This paper studies the contribution of fiscal decentralization policy regional economic growth. We proposed two kinds of local fiscal variables, i.e. decentralized expenditure (capital expenditure) and transfer revenue (special autonomy fund) of local government in the case of West Papua and Papua provinces. We use an unbalanced panel data over the period of 2007-2010. We found that both fiscal variables have a positive effect on regional economic growth. Surprisingly, the contribution of capital expenditure is less than the special autonomy fund suggesting the low effectiveness of capital expenditure. The findings did not conform to a priori efficiency expectations suggesting need to reform regional autonomy and fiscal decentralization policy in both provinces.

Keywords: Capital Expenditures, Regional Autonomy, Effectiveness, Economic Growth

INTRODUCTION

Since 2001, Indonesia has been implementing fiscal decentralization and regional autonomy for the lower-layer governments. Previously recognized as the most centralized system in the world, Indonesia then drastically has been becoming the most decentralized system by the launch of Act No. 22 and 25/1999. Since the ‘big bang’ strategy, the evolution of local government system has been developing by the Act No. 32 and 34/2004 regarding the intergovernmental fiscal relation.

More specifically, according to Act No. 21/2001 and then revised by the Presidential Decree No. 1/2008, Nangroe Aceh Darussalam, Papua, and West Papua are three of local governments that labeled ‘special autonomy regions’ compared to other provinces in Indonesia. In this circumstance, they receive substantial amount of fund from central government especially allocated to develop themselves including General Purpose Grant, Specific Purpose Grant, and tax/non tax sharing revenues. Unlike other provinces, the three regions also earn special autonomy fund.

The problems that arise nowadays are the local governments too much rely upon intergovernmental transfer in order to finance their routine and development expenditures (Kang and Setyawan, 2012). On the other hand, the large amount of fund does not significantly improve the socio-economic conditions. In 2010, for example, most of regency/municipalities in Papua and West Papua provinces have the lowest human
development index (BPS, 2011). This brings back to idea of the effectiveness of development expenditure and in particular the special autonomy fund.

Empirically, the existing studies on the linkages between public expenditure and economic growth either in advanced and developing countries showed conflicting results (Ram, 1986; Romer, 1989, 1990a, 1990b; Landau 1983, 1985; Grier and Tullock, 1989; Alexander, 1990; Barro, 1990, 1991; Kormendi and Meguire, 1985; Levine and Renelt, 1992). However, none of them incorporates the government revenue as explanatory variables in their model.

These conflicting findings highlighted the importance of more research to identify the linkage between public expenditure and economic growth for developing countries including Indonesia. To get further insights into the linkages between fiscal policies and economic growth, we identify not only the elements of public expenditure (as suggested by Bose, Haque, and Osborn, 2007) but also its revenue.

This paper would like to analyze whether the public expenditure along with intergovernmental transfers have a positive and significant impact on local economic growth. Focusing on the special autonomy fund and capital expenditure, the purpose of this study is to demonstrate empirically its effectiveness at regency/municipality level in Papua and West Papua provinces. The rests of this paper are organized as follows. The next section will explore the theoretical consideration and previous empirical studies. This is preceded by delivering research methodology. The results and discussion are reported in the forth section. Finally, the concluding remarks are drawn.

LITERATURE REVIEW

In the broader sense, there are three views regarding the role of government in the economy. The Neoclassical paradigm believes that government economic activity may reduce private sector economic activity (Bernheim, 1989). Therefore, government should limit the intervention. Keynesian view advocates the active role of government because of its multiplier effects (Fazzari, 1994). Finally, Ricardian Equivalence proposition argues for the neutrality of government economic activity (Barro, 1989).

In the context of local expenditure, it can affect on regional economic growth in several ways. It may induce regional economic growth when it locally adds to the social capital. Meanwhile, it may also reduce local economic activity if the local government expenditure competes to the private expenditure. In literature of public economics, it is well known as crowding out effect of government expenditure (Buiter, 1977).

The local government expenditure cannot be separated from its revenue. The local government revenue can be divided into two categories, i.e., local own revenue and intergovernmental transfer. The first comes from local resources mainly local taxes, charges, profit from local government own enterprises, and others. The later is received from central government including grant and tax/non tax sharing.

In the context of intergovernmental transfer, it can affect on regional economic growth in several ways. When the intergovernmental transfer may drive up the local own revenue, then both are used to finance capital expenditure, it boosts regional income. It is well known as flypaper effect of government expenditure (Hinnes and Thaler, 1995).
By contrast, if the intergovernmental transfer cannot empower local own revenue or even increases only administrative expenditure, it may lower regional economic growth (Devarajan, Swaroop, Zou, 1996). In fact, local government expenditure, intergovernmental transfer, and economic growth are inter-related. Basically, the intergovernmental transfer should be allocated to capital expenditure to facilitate private economic activities. Eventually, it could generate income and then absorbed again in the form of local own revenue (Kuncoro, 2007).

In the case of Indonesia, Kuncoro (1995) assessed the local public finance performance in the lower-layer governments during the pilot project of fiscal decentralization periods. He found that the local own revenue can only finance 15 percent of the total expenditure. Ironically, the lower percentage occurred at the level of regency/municipality which is remarkably the central of regional autonomy policy.

Sriyana (1999) observed the local public finance performance in terms of local own revenue and local taxes. He hypothesized that they are determined by regional income and population. His estimation presented that regional income determined the local own revenue and local taxes at the level of province and did not at regency/municipality level. In contrast, Kuncoro (2004) using simultaneous equation system found that regional income significantly influences the local own revenue in the case of regency/municipality.

Kuncoro (2007) analyzed the dynamic interaction among revenue, expenditure, intergovernmental transfer, and regional income at regency/municipality level. He found that there was bi-directional causality among those variables except intergovernmental transfer and regional income. He concluded that regional income causes intergovernmental transfer but the later does not cause regional income implying that regency/municipality can optimize economic growth without depending heavily on the intergovernmental transfer.

Those studies above present that the local public finance in Indonesia provides the diverse conclusion and is interesting to be explored further. Those studies suggest that the root of the problem of the impact of local public finance on economic growth is the efficiency of the corresponding expenditures and effectiveness of intergovernmental transfer.

**METHODOLOGY**

To test the efficiency of local public expenditures and effectiveness of intergovernmental transfer, we adopt the conventional Cobb-Douglas production function and applied at regency/municipality level in Papua and West Papua provinces in Indonesia. Based on the literature review in the previous section, the regional income (Y) is assumed to be dependent on local government capital expenditures (CE) and the special autonomy fund (SAF):

\[ Y = f(CE, SAF) \]  

This study has been made on the basis of panel data models to investigate the contribution of the decentralized expenditures and intergovernmental transfer revenue performance on local economic growth. In order to overcome this problem, this study uses log linear specification and the model can be written as follows:

\[ \log Y_{it} = \alpha + \beta_1 \log CE_{it} + \beta_2 \log SAF_{it} + e_{it} \]  

Subscripts i denotes regency/municipality, t is time, and e = random disturbance terms.
The neoclassical production theory predicts that an increase in capital expenditure will raise regional income so we expect $\beta_1$ is positive. The estimated value of $\beta_2$ could be positive or negative.

The traditional microeconomic theory proposed that the local government expenditure is treated similarly to the private expenditure and the local public expenditure is examined under the assumption that local government faces linear budget constraints to supply public goods/services. Given that, we can test some restrictions imposed into equation (4):

$$\beta_1 = \beta_2;$$  
\[ \text{i.e. expenditures and transfer have an equal impact on economic growth} \] (3)

$$\beta_1 + \beta_2 = 1,$$  
\[ \text{i.e. constant return to scale – expenditures and revenue proportionally induce economic growth} \] (4)

The test is done using both analysis of variance (F-test) and chi-square ($\chi^2$-test) tests for each parameter restriction imposed (see for example: Gujarati, 2004).

This study utilizes regencies/municipalities data of Papua and West Papua provinces throughout period of 2007 until 2010 with total of 29 and 11 regencies/municipalities respectively. Due to the altered number of regions in both provinces during the study period, the samples utilized in this study are the regions that meet the following criteria: (a) the availability of Local Budget Realization Report data; (b) regencies/municipalities that already exist and not experiencing changes (division, unification); and (c) the associated regencies/municipalities remain receiving special autonomy fund.

Referring to those criteria above, there were only 39 sample points regencies/municipalities exerted as a sample in this study. All of the data are taken from Local Budget Realization Report data published by General Directorate of Fiscal Balance, Ministry of Treasury website (http://www.djpk.depkeu.go.id/). Other data come from Central Board of Statistics (http://www.bps.go.id). This study employs regression analysis i.e. multiple regression analysis and applied for unbalanced panel data by assuming all requirements in regression analysis are satisfied.

The variables used here are specified as follows. The regional income is the summation of final products measured in 2000 constant prices (million Rupiah). The special autonomy fund (in some cases including adjustment fund) is also measured in million Rupiah. The capital expenditure follows the sectoral/functional budgetary realizations. The transfer and expenditures are then converted into real term by dividing by GDP deflator (2000 = 1) to avoid money illusion.

RESULTS AND DISCUSSION

Table 1 delivers the descriptive statistics of all variables of interest covering mean, extreme, standard deviation, skewness, and also kurtosis values. Statistically, a variable is said to be volatile if its CV (coefficient of variation, ratio of standard deviation to mean) is more than 50 percent. Based on the empirical rule, the regional income is the most volatile indicated by the highest CV (236 percent) which more than 4.7 trillion was contributed by Mimika.
The variability of capital expenditure is also relatively high (more than 102 percent). The special autonomy fund is relatively the least diverse revealed by the lowest CV (41 percent). This raises preliminary hypothesis that capital expenditures will support to regional economic growth. We will check it more deeply later using econometric tools.

Table 1
Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>CE</th>
<th>SAF</th>
<th>Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>210637.80</td>
<td>76292.18</td>
<td>432752.40</td>
</tr>
<tr>
<td>Median</td>
<td>169969.00</td>
<td>68150.70</td>
<td>1102.03</td>
</tr>
<tr>
<td>Maximum</td>
<td>690831.80</td>
<td>145104.00</td>
<td>4712580.00</td>
</tr>
<tr>
<td>Minimum</td>
<td>150.58</td>
<td>14166.05</td>
<td>76.14</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>215923.90</td>
<td>31861.05</td>
<td>1020658.00</td>
</tr>
<tr>
<td>Skewness</td>
<td>0.7290</td>
<td>0.3235</td>
<td>2.8587</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>2.3228</td>
<td>2.9414</td>
<td>10.7672</td>
</tr>
<tr>
<td>CV (%)</td>
<td>102.51</td>
<td>41.76</td>
<td>235.85</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>4.1997</td>
<td>0.6858</td>
<td>151.1546</td>
</tr>
<tr>
<td>Probability</td>
<td>0.1225</td>
<td>0.7097</td>
<td>0.0000</td>
</tr>
<tr>
<td>Observations</td>
<td>39</td>
<td>39</td>
<td>39</td>
</tr>
</tbody>
</table>

All of variables of interest are symmetrically distributed (bell-shaped) indicated by the low value of skewness except regional income. The null hypotheses that the series data is normally distributed can be accepted. The Jarque-Bera test supports to the symmetric distribution hypotheses. The upper tail of the distribution of regional income is thicker than the lower tail (indicated by the positive values of skewness) and the tails of the distribution are thicker than the normal (indicated by the kurtosis coefficient is greater than 3).

Table 2 presents the pairwise correlation linking types of intergovernmental transfer and regional income. The correlation index among all types of intergovernmental transfer is positive except tax and non tax sharing (TNTS). However, it has positive correlation to regional income. Meanwhile, general purposes grants (GPG) and specific purposes grants (SPG) have a negative correlation to regional income.

It is notable that the special autonomy fund (SAF) has the highest correlation (0.32) and statistically significant. It implies that the corresponding transfer is strongly associated with regional income. This raises preliminary hypothesis that special autonomy fund will support to regional economic growth.

Table 2
Pair Wise Correlation between Types of Transfer and Regional Income

<table>
<thead>
<tr>
<th></th>
<th>GPG</th>
<th>SPG</th>
<th>TNTS</th>
<th>SAF</th>
<th>Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>GPG</td>
<td>1.0000</td>
<td>0.5863</td>
<td>-0.0743</td>
<td>0.1699</td>
<td>-0.1263</td>
</tr>
<tr>
<td>SPG</td>
<td>0.5863</td>
<td>1.0000</td>
<td>0.0547</td>
<td>0.3145</td>
<td>-0.1433</td>
</tr>
<tr>
<td>TNTS</td>
<td>-0.0743</td>
<td>0.0547</td>
<td>1.0000</td>
<td>0.0173</td>
<td>0.1110</td>
</tr>
<tr>
<td>SAF</td>
<td>0.1699</td>
<td>0.3145</td>
<td>0.0173</td>
<td>1.0000</td>
<td>0.3183</td>
</tr>
<tr>
<td>Y</td>
<td>-0.1263</td>
<td>-0.1433</td>
<td>0.1110</td>
<td>0.3183</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

Table 3 reports the estimation results of log linear model based on fixed effect model as specified in equation (2) for West Papua and Papua provinces. The sign of public capital
expenditures coefficients as expected is significantly positive. An increase 1 percent in public capital expenditures tends to incline regional income for about 0.84 percent. Given that, we infer that public capital expenditure successfully support to regional economic growth suggesting the capital expenditure is productive.

Table 3 Regression Results

<table>
<thead>
<tr>
<th>Dependent Variable: Log (Y)</th>
<th>Papua + West Papua</th>
<th>Coefficient</th>
<th>t-stat</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-21.43430</td>
<td>-2.151471</td>
<td>0.0382</td>
<td></td>
</tr>
<tr>
<td>Capital Expenditure Log (CE)</td>
<td>0.83822</td>
<td>3.802870</td>
<td>0.0005</td>
<td></td>
</tr>
<tr>
<td>Special Autonomy Fund: Log (SAF)</td>
<td>1.85902</td>
<td>2.057889</td>
<td>0.0469</td>
<td></td>
</tr>
</tbody>
</table>

R-sq 0.37758  
S.E. of regression 2.91777  
F-stat 10.91951  
N 39

The relatively low contribution of capital expenditure to regional income may be inversely associated with administrative expenditure. Given that, we can say that the division/construction of new localities in the spirit of regional autonomy followed by increasing the operating expenditures supports to local economic growth. This finding is in line with recent studies in developing countries especially for Africa (Olabisi and Oloni, 2012; Mudaki and Masaviru, 2012).

With regard to the special autonomy fund, it also contributes to the regional income. This conclusion is proved by statistical evaluation that the corresponding regression coefficient is significant at 95 percent confidence level. An increase 1 percent in special autonomy fund tends to incline regional income for about 1.86 percent. This finding challenges to the study of Kuncoro (2007).

Compared to the public capital expenditure, the magnitude of the special autonomy fund coefficient is much higher. It seems that the local government too much relies upon intergovernmental transfer in order to generate regional income. Consequently, in the long run this is harmful not only for local government fiscal condition but also for overall economy as found by Kuncoro (1995).

So far, we have talked about the effective determinants of local economic growth. In the next section we will answer the main question whether both the public capital expenditure and special autonomy fund have been already used efficiently. Table 4 presents the result of statistical tests based on some restrictions imposed into the regression equation.

Table 4 Restriction Test

<table>
<thead>
<tr>
<th>Test Statistic</th>
<th>Value</th>
<th>df</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>F-statistic</td>
<td>1.120768</td>
<td>(1, 36)</td>
<td>0.2968</td>
</tr>
<tr>
<td>Chi-square</td>
<td>1.120768</td>
<td>1</td>
<td>0.2898</td>
</tr>
<tr>
<td>Normalized Restriction (= 0)</td>
<td>Value</td>
<td>Std. Err.</td>
<td></td>
</tr>
</tbody>
</table>
By imposing coefficient of both public expenditures are assumed to be equal \((\beta_1 = \beta_2)\), the result shows that we can accept it. The coefficient of capital expenditure statistically equals to the special autonomy fund implying that the local government internally does not experience the inefficiency allocation problems.

Furthermore, the second restriction is an assumption of the existence of constant return to scale \((\beta_1 + \beta_2 = 1)\), i.e. the sum of magnitude coefficients of public expenditures and special autonomy fund are imposed equal to unity. The regional output is said to enjoy constant return to scale when the increase in both induce proportionally the regional output increase. In such a case, the regional income is then said to be efficient.

The statistical tests show that we reject the restriction at 95 percent confidence level. However, when we use, let say, 90 percent confidence level, the conclusion will change. It means that regency/municipality in West Papua and Papua provinces do not experience constant return to scale. Given that, we can say that the efficiency is vulnerable.

Beyond the statistical issue to choose the confidence level, suppose that the restriction \((\beta_1 + \beta_2 = 1)\) is accepted. It implies that mathematically we can remove each variable into the left hand side. Table 5 delivers the re-estimation result after removing special autonomy fund joins to regional income in the left hand side in the form of Y/SAF ratio.

The coefficient of capital expenditure magnitude does not change substantially, from 0.84 to 0.87. The other indicators, such as coefficient of determination (R-sq), F-stat, and standard error of regression are also similar with the previous regression equation. Given this result, we infer that the effectiveness and efficiency problems in relation to regional economic growth enhancement take place in capital expenditure rather than intergovernmental transfer.

Looking at the constant parameter, however, the magnitude changes drastically, from -21.43 to -12.25. The constant represents the embodied technological change or efficiency improvement (Nicholson, 2006). Given this preposition, we clearly conclude that the critical problem for local government of regency/municipality in both provinces lies on the expenditures effectiveness not on efficiency.

### Table 5 Result of Restricted Regression

<table>
<thead>
<tr>
<th>Dependent Variable: Log (Y/SAF)</th>
<th>Papua + West Papua</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Coefficient</strong></td>
<td><strong>t-stat</strong></td>
</tr>
<tr>
<td>Constant</td>
<td>-12.24872</td>
</tr>
<tr>
<td>Capital Expenditure: Log (CE)</td>
<td>0.87248</td>
</tr>
<tr>
<td>R-sq</td>
<td>0.30373</td>
</tr>
</tbody>
</table>
CONCLUDING REMARKS

This paper analyzed the public expenditure and intergovernmental transfer optimization in relation to economic growth in the special autonomy region, i.e. Papua and West Papua provinces. The study employed secondary data published by formal institutions focusing on the unbalanced panel data at regency/municipality level. The motivation of this paper is triggered by the fact that many local governments in Indonesia do not have a substantial local own revenue to support their expenditure in order to stimulate local economic activity even though the fiscal decentralization and regional autonomy have been implemented.

This paper adopts production function method to evaluate the present efficiency and effectiveness of both fiscal variables. We found that the magnitude of local capital expenditure elasticity with respect to regional income is less than unity indicating that local economic growth is not responsive to the capital expenditure. Regarding the special autonomy fund, we found that the corresponding coefficient is elastic with respect to and can accelerate the regional income. We also found that the return to scale is vulnerable implying that the effectiveness and efficiency problems in relation to enhance regional economic growth occur in capital expenditure.

Refer to those findings, we suggest that local governments need to improve discretionary capital expenditures at local level, such as prioritize their expenditures and sharpen them – into soft and hard infrastructures -- so they are complement to the private expenditures. The local governments also should improve the budget composition as well as enforce the expenditures efficiency. Furthermore, to strengthen budget effectiveness, it is important to consider that the Special Autonomy Fund should become a requirement for the local government to increase local own revenue. Finally, it need to reform regional autonomy and fiscal decentralization policies in both provinces.

This study only focuses on the regional economic growth. Further researches are advisable to evaluate the impact of Special Autonomy Fund on social welfare functions, such as education, health, employment, and poverty reduction. The two latest are interesting to be explored further deeply. Indeed, unemployment and poverty are the greatest obstacles for any government expenditure in the world.

REFERENCES


The Effectiveness of Monetary And Fiscal Policies in the Indonesian Economy: Mundell-Fleming In Model

Abstract

This research aims to examine the effectiveness of fiscal and monetary policy in Indonesia's economy post-Asian financial crisis (2001-2010). To test the proposed hypotheses; the study employed the regression method of simultaneous equations, i.e. the 2SLS approach. The estimation results indicated that in the goods market, the interest rates were negative and influential as well as in government spending and exports. The effect of tax and value-added was not significant on exchange market goods in Indonesia. Money market (LM) indicates that the interest rates are not a relevant variable, and the money supply considerably affects money market in Indonesia. Monetary policy is more effective than fiscal policy with respect to improving the economy of Indonesia.

Keywords: Mundell-Fleming Model, Fiscal Policy, Monetary Policy.

Introduction

Economic growth has always been used to see the development of the economy of a country. Economic growth is also defined as the development of the activity in the economy so that the goods and services produced within the community increase or an increase in the gross domestic product (GDP). Gross Domestic Product (GDP) is the value of goods and services yielded in a state at a given year by using production factors both owned citizens belonging to or inhabitant of other countries, which are in the country. GDP can be assessed according to the market price or price prevailing as well as the constant ones (Sukirno, 2004).

The following presented graph showing rapid economic growth as seen from the GDP based on the price of the constant period during 2001 to 2010, it was a stable rising. Where the amount of the GDP in 2001 was IDR. 1.389.769 billion, and the number is .60 continues to surge until in the year 2010, that number increased to IDR2.313.838 per billion.
The Effectiveness of Monetary And Fiscal Policies in the Indonesian Economy: Mundell-Fleming In Model

Source: Bank Indonesia, SEKI various editions

**Graph 1: Indonesia's GDP 2000-2012 (in billion Rupiah)**
Fiscal policy is reflected in the income and Expenditure Budget of the State in Table 1. These include the development of Central Government spending from 2001 to 2010 (in billion rupiahs) as a reflection of the development of fiscal policy conducted by the Government.

**Table 1**
The Development Outcome of National and Regional Government From 2001 to 2010 (In Billion Rupiahs)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>National Government Budget</th>
<th>Regional Government Budget</th>
<th>The Amount of National Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>260.500.</td>
<td>81.100</td>
<td>341.600</td>
</tr>
<tr>
<td>2002</td>
<td>224.000.</td>
<td>98.200</td>
<td>322.200</td>
</tr>
<tr>
<td>2003</td>
<td>258.100.</td>
<td>120.700</td>
<td>378.800</td>
</tr>
<tr>
<td>2004</td>
<td>255.300.</td>
<td>119.000</td>
<td>374.400</td>
</tr>
<tr>
<td>2005</td>
<td>364.100.</td>
<td>177.800</td>
<td>511.900</td>
</tr>
<tr>
<td>2006</td>
<td>478.300.</td>
<td>220.800</td>
<td>699.100</td>
</tr>
<tr>
<td>2007</td>
<td>498.172,2</td>
<td>254.201</td>
<td>752.373</td>
</tr>
<tr>
<td>2008</td>
<td>655.649.</td>
<td>366.951</td>
<td>1.022.600</td>
</tr>
<tr>
<td>2009</td>
<td>716.367,3</td>
<td>412.413</td>
<td>1.128.780</td>
</tr>
<tr>
<td>2010</td>
<td>699.688,2</td>
<td>443.565</td>
<td>1.143,253</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia, SEKI in various editions

Table 2 exhibits the increasing government spending both in investment and tax. The objective of fiscal policy is to increase in GDP and expand employment opportunities or reduce unemployment. Expansionary policy will reduce the unemployment rate because every government spending will be organised for the construction of infrastructure and labor-intensive projects that absorb labor, on the other hand the tax reduction will increase investment because the cost of the investment is reduced.

**Table 2**
The Development of Investment and Tax in Indonesia 2001-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Investment (Billion Rupiahs)</th>
<th>Tax (Billion Rupiahs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>293.792,70</td>
<td>185.541</td>
</tr>
<tr>
<td>2002</td>
<td>307.584,60</td>
<td>210.088</td>
</tr>
<tr>
<td>2003</td>
<td>309.431,05</td>
<td>242.048</td>
</tr>
<tr>
<td>2004</td>
<td>354.856,74</td>
<td>280.559</td>
</tr>
<tr>
<td>2005</td>
<td>393.500,50</td>
<td>346.997</td>
</tr>
<tr>
<td>2006</td>
<td>403.719,24</td>
<td>409.055</td>
</tr>
<tr>
<td>2007</td>
<td>441.614,01</td>
<td>491.835</td>
</tr>
<tr>
<td>2008</td>
<td>493.222,49</td>
<td>658.667</td>
</tr>
<tr>
<td>2009</td>
<td>523.455,22</td>
<td>725.843</td>
</tr>
<tr>
<td>2010</td>
<td>565.733,42</td>
<td>729.165</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia, SEKI various edition
Literature Review

National Income

National income or national product is a term that describes the value of the goods and services produced by a country in a given year. In the concept of national income is known the term gross national product (GNI) that all products produced by production factors belonging to citizens in any given year and gross domestic product (GDP) of all products produced by both production factors belong to citizens as well as foreigners in the country in any given year.

Mathematically, the balance of national income in an economy with three sectors proportional tax system (Soediyono, 1981):

\[ Y = AD = C + I + G \]
\[ = C_0 + c (1 + t) Y + I_0 - b_i + G_0 \]
\[ = (C_0 + I_0 + G_0) + c (1 + t)Y - b_i \]
\[ Y = \frac{1}{1 - c(1-t)} \times \{ C_0 + I_0 + G_0 - b_i \} \]

…………….. (1)

On the open economy with a proportional tax system, the balance of national income mathematically is:

\[ Y = C + I + G + (X-M) \]
\[ = C_0 + c (1 - t)Y + I_0 - b_i + G_0 + X_0 - (M_0 + mY) \]
\[ = C_0 + cY - ctY + I_0 + G_0 + X_0 - M_0 - mY - bi \]
\[ Y - cY + ctY + mY = C_0 + I_0 + G_0 + X_0 - bi \]
\[ Y = \frac{1}{1 - c(1-t) + m} \times \{ C_0 + I_0 + G_0 + X_0 - M_0 - bi \} \]
\[ Y = \alpha \times \{ C_0 + I_0 + G_0 + X_0 - M_0 - bi \} \]

…………….. (2)

While the LM curve can be mathematically formulated by combining the equation will balance of real money demand (kY-hi) with real money supply equation (M/P). In order for the market equilibrium, demand always must be equal to supply. This equation can be written as follows (Dornbusch, 2001):

\[ M/P = Ky - hI \]

\[ i = \frac{1}{h} \left( kY - \frac{M}{P} \right) \]

…………….. (3)

…………….. (4)

Fiscal Policy
Fiscal policies are all actions done by government, which aims to influence the course of the economy through the addition or reduction of expenditure and tax imposed by government. There are two instruments on a fiscal policy that is government spending and taxation arrangements. From the side of tax, its rate change may affect the economy. If taxes are lowered, the purchasing power will increase, and thus the industry can increase the amount of output. And reverse tax increase will lose purchasing power as well as lower industry output in general.

Fiscal policy itself can be done in two ways, namely expansionary and contractive. Expansionary fiscal policy can be an addition or reduction of government’s expenditure tax. While the contractive policy is the reduction of government spending or increasing taxes. The objective of fiscal policy is to increase in GDP and expand employment opportunities or reduce unemployment. The influence of macroeconomic fiscal policy can be seen through the balance of the goods market curve (the IS curve). The balance of market goods derived from autonomous planned expenditures and interest rates. If the interest rate is higher, then the consumption will go down. This is because the interest rate is the cost of debt, so that any increase in the interest rates will increase the cost of capital. Consequently, it will reduce the consumption rate, thus it will push GDP down, or in the other words, a decreasing rate of consumption of goods and services.

Monetary Policy
Monetary policy is a policy that aims to achieve internal balance (i.e. high economic growth, price stability, and equitable development) and external balance (stable balance of payments). At the same time, this policy tries to maintain stable macroeconomic, by minimizing unemployment, creating more employment, regulating market price, and reducing the trade deficit. When the stability of the economy activity is interrupted, then monetary policy can be used to restore it (stabilization actions). Monetary policy also plays an important role in sustaining a high economic growth rate as well as maintaining price stability. To achieve that goal the Central Bank, as the main monetary authority over a country, tries to set the balance between the supply of money and goods and services available in the market, control the inflation rate, achieve full-employment level, and facilitate the distribution of goods.

The Fiscal and Monetary Policies in Mundell-Fleming
To analyze the effects of the application of the system of free-floating exchange rates in the implementation of economic policy by a small and open country, we employed Mundell and Fleming. Mundell-Fleming Model is an open economy version of the model IS-LM. The model emphasizes the interaction between goods market and money market, as well as assumes that the price level is fixed. It shows the causes of short term fluctuations in aggregate income (or, in conjunction with shifts in the aggregate demand curve). The key difference between the IS-LM and Mundell-Fleming Model is that the IS-LM assumes the economy is closed in which the economy will depend on the exchange rate system adopted. Meanwhile, the Mundell-Fleming Model assumes that the observed economy is mall and open one with perfect capital mobility. This means that the economy can borrow or lend as much as it wants in the world financial markets and, as a result of the interest rate economy (r) is determined by the global interest rate (r *). Mathematically, we can write this as an assumption.

\[ r = r^* \]  

To drive the domestic interest rate down, capital will flow out of the country to generate a higher return, and this capital outflow will push the internal interest rates back up to \( r^* \). So, the equation \( r = r^* \) indicates the assumption that international capital flow is adequate.
The Effectiveness of Monetary And Fiscal Policies in the Indonesian Economy: Mundell-Fleming In Model

enough to sustain the domestic interest rate being equal to the global interest rate (Mankiw, 2000). According to Mundell-Fleming model, the small and open economy with perfect capital mobility can be described by two equations:

\[ Y = C ( y - T ) + I ( r^* ) + G + NX ( e ) \]  
\[ M/P = L ( r^*, Y ) \]

The first equation describes the equilibrium on the market of goods, and the second equation describes the equilibrium in the money market. Exogenous variables are G and T as fiscal policy, monetary policy, the price-level P, and the global interest rate (r*). Endogenous variable is Y and income rate.

**Previous Studies**

A number of studies have been done with regards to Mundell-Fleming Model and a small-open economy. Konuki (2000) analyzes the impact of short-term fiscal and monetary policies to aggregate demand by using the model of the IS-LM-BP with Structural analysis method of ECM. Konuki (2000) used the Switzerland economy data to adopt a flexible exchange rate system. After loosening the monetary policy, domestic currency will be depreciated for a substantial period of time and expanding the aggregate demand then it will return to its original flow directions. The impact of the stimulus from aggressive monetary policy was on the internal exchange rate depreciation, afterwards it will increase exports and total demand. Meanwhile, the expansionary fiscal policy will give the adversely impact.

**RESEARCH METHOD**

The research method used descriptive and quantitative research. The explanatory research provides the depiction or a portrait of the problems conditions based on facts obtained at any given time, meanwhile the latter one emphasizes on the numerical data analysis and tests the proposed hypothesis by using statistical methods. Here are the equations used in structural research:

**Goods Market Model**

\[ Y = C + I + G + X - M \]
\[ Y = C + S + Tx \]
\[ Y = Y \]
\[ I + G + X - M = S + Tx \]
\[ i ( r ) + G_0 + X_0 - M_0 = S ( Y, ER ) + Tx \]
\[ \alpha_0 - \alpha_1 r + G_0 + X_0 - M_0 = \delta_0 + \delta_1 Y + Tx \]
\[ \alpha_0 - \alpha_1 r + G_0 + X_0 - M_0 = \delta_0 + \delta_1 Y + \beta_1 Y \]
\[ (\delta_1 + \beta_1) Y = (\alpha_0 + \beta_0 - \delta_0) - \alpha_1 r + G_0 + X_0 - M_0 \]
\[ Y = \frac{\alpha_0 - \beta_0 - \delta_0}{\delta_1 + \beta_1} r + \frac{1}{\delta_1 + \beta_1} G_0 + \frac{1}{\delta_1 + \beta_1} T_x + \frac{1}{\delta_1 + \beta_1} X_0 - \frac{\beta_2}{\delta_1 + \beta_1} ER \]
\[ Y = \pi_{11} + \pi_{12} r + \pi_{13} G_0 - \pi_{14} T_x + \pi_{15} X_0 - \pi_{16} ER \]
\[ IS ( Y ) = f ( r, G, Tx, X_0, ER ) \]

Where:

- \( Y_t \) = Output
- \( C \) = the amount of consumption
- \( I \) = the amount of investment
- \( G \) = the amount of government outcome
- \( X \) = the amount of export
- \( M \) = the amount of import
- \( r \) = the interest rate
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ER = the exchange rate  
S = the amount of saving  
α₀ – α₈ = the variable coefficient

Money Market Model

\[ MD = MS \]
\[ MD = f(Y_1, r) \]
\[ MD = α₀ + α₁ Y - α₂ r \]
\[ MS = MS₀ \]
\[ α₀ + α₁ Y - α₂ r = MS₀ \]
\[ α₁ Y = -α₀ + α₂ r + MS₀ \]
\[ LM = Y = \frac{α₀}{α₁} + \frac{α₂}{α₁} r + \frac{1}{α₁} MS₀ \]

RESULTS AND DISCUSSION

To measure the impact of fiscal and monetary policy, we used a model of simultaneous equations describing how the model in General IS is affected by gross domestic product, interest rates, taxes, government spending, exports and exchange rates. Meanwhile, the model LM gross domestic product is affected by the level of domestic interest rates and the money supply. This study used the reduced-form equations, because the equations used represent each endogenous variable as a function of only exogenous variables (Gujarati, 2003). The results of the estimation analysis model can be seen in Table 3 below.

Table 3

<table>
<thead>
<tr>
<th>Table</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C(10)</td>
<td>10.80223</td>
<td>1.100402</td>
<td>9.816625</td>
<td>0.0000</td>
</tr>
<tr>
<td>C(11)</td>
<td>-0.103611</td>
<td>0.055298</td>
<td>-1.873680</td>
<td>0.0646</td>
</tr>
<tr>
<td>C(12)</td>
<td>0.093798</td>
<td>0.054141</td>
<td>1.732482</td>
<td>0.0870</td>
</tr>
<tr>
<td>C(13)</td>
<td>-0.005493</td>
<td>0.007246</td>
<td>-0.758018</td>
<td>0.4506</td>
</tr>
<tr>
<td>C(14)</td>
<td>0.333295</td>
<td>0.039318</td>
<td>8.476979</td>
<td>0.0000</td>
</tr>
<tr>
<td>C(15)</td>
<td>-0.005746</td>
<td>0.079632</td>
<td>-0.072158</td>
<td>0.9427</td>
</tr>
<tr>
<td>C(20)</td>
<td>10.20361</td>
<td>0.240826</td>
<td>42.36924</td>
<td>0.0000</td>
</tr>
<tr>
<td>C(21)</td>
<td>-0.022937</td>
<td>0.026700</td>
<td>-0.859058</td>
<td>0.3928</td>
</tr>
<tr>
<td>C(22)</td>
<td>0.364821</td>
<td>0.015951</td>
<td>22.87118</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Determinant residual covariance 2.74E-06

Equation: LOG(PDB) = C(10)+C(11)*LOG(R)+C(12)*LOG(G)+C(13)*LOG(TX)+C(14)*LOG(X)+C(15)*LOG(ER)  
Instruments: C LOG(R) LOG(G) LOG(TX) LOG(X) LOG(ER) LOG(JUB) 
Observations: 45
Discussion

Our study finds that government spending influence positively on GDP. This result support our hypothesis that the increase in GDP is triggered by the change in government spending. In the other words, it reveals the positive impact of government spending on GDP. This is inline with the economic theory, saying that if government spending increases GDP, then the country’s consumption will surge as well, so that the economic growth will increase. This finding also supports the prior study on the influence of government expenditure on economic growth and income distribution, which is a study of inter-provincial in Indonesia 1994-2003, conducted by Asri (2010). Our study indicates that local government development expenditure in the primary sector, trade and transportation, culture and education has positive effect on economic growth.

This study also finds that export has a positive relationship to GDP, which is in line with the work of Pratama (2009) investigating the link between export and economic growth in the period 1960-2009. The stationary test reveals that export and economic growth are stationary on the degree of integration of 1 or I (1) with a confidence level of 1 percent. It supports the classical macroeconomic theory in which exports and national income is an identity equation because exports are part of national income levels.

Our empirical finding supports the hypothesis of the negative relationship between interest rate and GDP, which has elasticity 0.10. This result is in line with the work of Hariyanti (2001) using ECM approach, which the money supply influence the interest rates.

CONCLUSIONS

The study on IS-LM model to test the effectiveness of monetary and fiscal policies on Indonesia’s economy reveals some important results. Firstly, interest and savings (IS Model) affect GDP negatively and significantly. Meanwhile the government spending and export influence GDP positively and significantly. Our study finds that tax and exchange rate do not affect Indonesia’s GDP. Secondly, in the liquidity preference and money supply side, the amount of circulated money affects Indonesia’s GDP positively and significantly. However, in this side, the interest rated does not influence Indonesia’s GDP. We can conclude that monetary policy has more effect than fiscal one in Indonesia’s economy.

The positive and significant effect of export implies that the Indonesian government should support business sector, especially manufacturing industry, by providing supportive
environment and regulations to boost export. The same policy can do in the side of government expenditure, which it will positively affect the Indonesia’s GDP.

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An exporting firm may transact a short-run export contract in foreign currency. Assuming that costs in the firm’s own currency are known at \( t-1 \), the only uncertainty arises from the nominal exchange rate \( e_t \). The firm does not know its revenue in domestic currency at \( t-1 \). The expected utility from profit \( \Pi_t \) at time \( t-1 \) for the exporting firm will be
\[
E_{\Pi_t}U(\Pi_t) = E_{\Pi_t}U(q_t \mid t-1)(P_t^e \mid t-1)e_t - (C_t \mid t-1)
\]
where the price in foreign currency \( P_t^e \) is fixed at \( t-1 \), and where, assuming production occurs between \( t-1 \) and \( t \), the quantity produced \( q_t \) and costs \( C_t \) are known at \( t-1 \). Firms which may have some sort of long-term commitment to an export activity have to sustain sunk costs to enter particular foreign markets and are interested in the evolution of their revenues relative to their costs. Assume that costs are a function of domestic prices, these firms’ future expected profits are a function of domestic prices, foreign prices, and the exchange rate. Thus, real profits are a function of the real exchange rate
\[
E_{\Pi_t}U(\Sigma_t \Pi_t, (1+r)^{-t}) = E_{\Pi_t}U(\Sigma_t (p_t^*e_t - C(p_t))(1+r)^{-t})
\]
and
\[
E_{\Pi_t}U(\Sigma_t \Pi_t, (1+r)^{-t}) = E_{\Pi_t}U(\Sigma_t (p_t^*e_t - C(p_t))(1+r)^{-t})
\]
Forward markets are not complete in terms of maturity, and future exchange rates needs may not be known precisely at the moment of the decision. Hence real exchange rate uncertainty may play an important role in determining firms’ import/export choices. See Viaene and de Vries (1992).
Krugman (1987), Dornbusch (1987b), and Baldwin and Krugman (1989) argue that large exchange rate shocks can lead to entry or exit in markets where there are fixed sunk costs of entry. Exports take place when the exchange rate allows for profitable exporting and is linked to transaction costs which are incurred by firms on entry to and exit from a foreign market.

Franke (1991) explains that the effect of exchange rate volatility on export volume depends on the optimal export volume being a function of the exchange rate and on the optimal adjustment of entry and exit rates. The value of the export strategy increases with exchange rate volatility for a firm with a comparative disadvantage in international trade, i.e. a firm which incurs a loss from exporting if the exchange rate equals the parity rate at which internationally traded commodities are equally expensive in the domestic and in the foreign market. For a firm with a comparative disadvantage, the expected cash flows from exporting accrue at a faster rate with exchange rate volatility than the expected entry and exit costs. Therefore the value of exporting grows with exchange rate volatility. Other firms, with comparative advantages in trading, can make profits when the exchange rate equals the parity rate.

A study by Forbes (2001) has further shown that competitive effects and income effects are among the most important determinants explaining trade fluctuations between economies.

For instance, Learner and Stern (1970) suggest that the quantity (volume) of exports is more appropriate to use than value of exports.

Since the consumer price index contains both traded and non-traded goods, while wholesale price index covers tradable goods. So, to measure the competitiveness between two countries, it would be more appropriate to use the wholesale price index.

See Brodsky (1984), Kenen and Rodrik (1986) and Lanyi and Suss (1982) for discussion of exchange rate volatility measures.

Harris (1995) explains that similar time trend in nonstationary variables could lead to such spurious relationships being found, in which case standard t- and F-statistics do not have the standard distributions generated by stationary series.


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